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**Regional transformation in the Czech Republic:
internationalization, embeddedness and adaptability**

Thesis submitted for the degree of Doctorate of Philosophy
The Open University, Milton Keynes, UK

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Discipline of Geography

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ABSTRACT

The thesis explores the role of internationalization in the socioeconomic development of three regions in the Czech Republic. For this purpose a theoretical framework for the analysis of regional change is developed which combines network theory as presented by New Economic Sociology, actor-network theory and the concepts of social capital, symbolic capital and symbolic power of Pierre Bourdieu. It is argued that a conceptualization of economic action requires a simultaneous analysis of networked activities of individuals and their relations to the sources of recognition and symbolic power.

On this basis the thesis strives to elaborate on the ways in which these aspects of analysis may be incorporated into a culturally-informed regional research and research into the uneven abilities of regions to 'hold down' the process of internationalization. With this conceptual framework in mind, the thesis analyses the functioning of the centrally-planned economic system in Czechoslovakia, as well as explaining the outcomes of Czech privatization.

The empirical chapters subsequently present three case studies of Czech regions - namely Lanškroun, Mladá Boleslav, and Rožnov - and seek to explain how and why, in each of them, the process of internationalization was 'held down' with different degrees of success.

In the summary of empirical findings the thesis argues that a 'successful' process of internationalization requires local actors to control and mediate the meaning of this process and to become empowered by it.

Pro Barušku

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Doing a PhD is always a challenge. Doing a PhD in a foreign country makes this challenge somewhat more difficult but also a much more exciting experience. It involves adaptation to a completely new environment, to a new life style, new meanings and understandings while it also means starting almost from scratch in terms of social relations and networks that constitute one's social life. In this sense writing acknowledgements involves thanking all those who created the new 'world' for me, all the people whose networks and practices became part of the culture in which my life and activity has been embedded over the past three years. And this, even if one lives in a nicely patterned and structured city of Milton Keynes, is not an easy task.

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May 1999

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INTRODUCTION

The focus and aims of the thesis

The year 1989 marked the end of what many people in Communist countries ironically called 'the greatest experiment of the twentieth century'. After years of mutual isolation between the East and the West, formerly Communist countries began to open to and re-integrate with the Western capitalist world. As a consequence, these countries experienced a radical transformation of their socioeconomies as they began to adapt and adjust to the economic rationality of Western capitalism. An important part of this transformation was the process of internationalization, which heightened uneven regional development within countries of the former Communist block. Both internationalization and high regional differentiation are well established processes across the countries of the capitalist West. Yet in Eastern Europe it was only the collapse of Communism at the end of 1980s that brought increasing levels of internationalization, as well as an exacerbation of regional unevenness to levels that had previously been unknown. The dynamics of internationalization and its uneven impact in the post-Communist societies have stimulated a large body of research which has sought to document and explain their outcome (see e.g. Hampl *et al.*, 1996; Grabher and Stark, 1997a; Smith, 1997; Pickles and Smith, 1998; Swain and Hardy, 1998). The thesis builds on this existing body of research and attempts to provide answers to some crucial questions associated with the processes of internationalization and regional change in the post-Communist context.

The issue addressed in this thesis is the role that internationalization has played in reinvigorating regional economies under post-Communist conditions. The specific focus is that of the Czech Republic which offers a good example of relatively quick re-integration into the networks and flows of international capitalist economy. More significantly, the aim of the present research is to establish what kind of institutional and cultural forms can 'hold down' (Amin and Thrift, 1994b) the process of internationalization in ways that increase the adaptability and long term competitiveness of regions. In other words, the thesis attempts to explain why the impact of

internationalization on the institutional forms of some regions is predominantly positive and strengthens locally-based development potential, while in others it leads to an increasing dependence on foreign firms and to a lack of autonomous innovative and adaptive capacity. In sum, the aim is to find out what kind of "institutional set-up" (Amin and Hausner, 1997, p. 14) allows some post-Communist regions to adapt to and to accommodate the process of internationalization in a way which enhances their ability to compete internationally, as well as maintaining their ability to adapt in the longer term.

The ability to accommodate successfully the process of internationalization is an issue of great importance, both for the regions of formerly Communist countries as well as for 'traditional' capitalist ones. There is, however, a fundamental reason why social scientists should be interested in the specific character of internationalization and its impact on the adaptability and competitiveness of the post-Communist regions. The regional economies of these countries have recently experienced a transition from the particular rationality of central planning to the radically different profit-making rationality of capitalism. The contrasting speed and the sharpness of the socioeconomic 'rupture' that the post-Communist regions have experienced make an understanding and explanation of socioeconomic transformation that much easier to see and to grasp. As a consequence, the creation of locally-specific forms of market rationalities, the suppression of old regional institutional forms and their transformation into new ones, as well as the rapid increase in regional disparities, can almost be directly sensed and experienced in these societies.

The post-Communist regions of the 1990s thus represent some kind of socioeconomic 'laboratory' which provides a series of insights into processes that constitute markets or are responsible for regional growth and decline. These are processes which, in the countries of the West, usually operate over longer periods of time and tend to be less distinct and of a lesser contrast. The specific character of the post-Communist transformations thus makes these societies well placed to contribute in an important way to our understanding of the functioning of market-based economies in the West. This research attempts to demonstrate the useful role that the post-Communist

'laboratory' can play in offering new insights into the processes responsible for uneven regional development and for the diverse abilities of regions to adapt to internationalization.

The central claim of this thesis is that the capacity of regions to 'hold down' internationalization in ways that contribute to their adaptability and competitiveness depends on the ability of local actors to become empowered through the process of internationalization, to be in control of its meaning and to enrol others in the specific interpretation of such a process. It is argued here that such a differentiated capacity of regions can be explained by analyzing the different aspects of locally-specific forms of embeddedness. Following the work of Granovetter (1985/1992) and the New Economic Sociology (Swedberg and Granovetter, 1992), embeddedness is understood as a set of networked personal relationships among actors. However, this research claims that in order to get a full understanding of the diverse capacity of regions to accommodate internationalization, the concept of embeddedness needs to be expanded beyond such a networked understanding. It should also include the analysis of symbolic power relations (Bourdieu, 1977, 1990, 1991) which allow actors to transform collective practices and meanings. In order to explain the existing system of practices and power relations, the analysis of embeddedness needs to focus on the cultural processes of translation and enrolment through which actors rework the forms of embeddedness, stabilize meanings of practices and transform the understandings of others (Bourdieu, 1977; Latour, 1987; Callon, 1991).

The rapid crystallisation of new sources of power and the dramatic redefinition of recognized practices and meanings over a fairly limited period of time are features unique to the post-Communist economies. As such the post-Communist societies provide a stimulating empirical opportunity for exploring the character of processes that produce the institutional set-ups capable of 'holding down' internationalization. This thesis intends to exploit this opportunity in its effort to specify the circumstances under which internationalization transforms existing forms of embeddedness in ways which make regional economies capable of sustaining adaptability and competitiveness. In doing so, the thesis also attempts to enrich the existing concept of embeddedness as

commonly used in the geographical and sociological literature by combining the analysis of networks (Granovetter, 1985/1992; Swedberg and Granovetter, 1992) with an analysis of cultural practices and power based on the theory of Pierre Bourdieu (1977, 1990, 1993a, b) and actor-network theory (Latour, 1987; Callon, 1991).

The issues of post-Communist transformation: 'legacies', internationalization and uneven development

The exact contours of the new socioeconomic forms appearing in Eastern Europe are far from clear and are not yet stabilized. Nevertheless what seems to be clear is that the opening of the post-Communist societies to a Western capitalist world and a greater interconnectedness between the two formerly separated 'worlds' of the East and the West has led to their convergence. Despite this, however, there is also plentiful evidence that the development paths of the post-Communist economies and their gradual adaptation to Western capitalist rationality are very likely to result in specific forms of capitalism with unique institutional and cultural features (Stark, 1992, 1995; Hausner *et al.*, 1995; Stark and Bruszt, 1995, 1998; Grabher and Stark, 1997a; Pickles and Smith, 1998; Swain and Hardy, 1998). The specific institutional and cultural forms of Eastern European capitalism reflect what has been called elsewhere the 'legacies' of Communism (Stark, 1992, 1995; Grabher and Stark, 1997a, b).

The argument of the thesis builds on the proposition put forward by Stark and others (1995, 1996; Stark and Grabher, 1997b; Stark and Bruszt, 1998) that these 'legacies' interact with elements of Western capitalist economies in locally-specific ways to create new socioeconomic forms based on a 'recombination' of parts of Communist and capitalist economic systems. The results of such locally-specific transformations and recombinations are responsible for the diverse responses of regions to the new economic environment, as well as for the increasing spatial unevenness observed in all the post-Communist countries (Hampl *et al.*, 1996; Smith, 1996, 1997; Grabher and Stark, 1997a; Smith and Pickles, 1998).

The character of the new socioeconomic forms created by this process of 'recombination', however, raises further questions. These are related to the compatibility

of institutional and cultural forms of post-Communist economies with those of Western capitalism and to their ability to adapt to its criteria of profit-making rationality.

What, then, are the possible scenarios for the transformation of regions in post-Communist countries? Will these regions prove to be compatible with the globalized economy of the West, but only as a part of the 'new periphery' of Europe used as a location for low-cost and low-technology production? Or will they be able to learn from the examples of successful regions in Western Europe and transform their institutional legacies in ways that will make them internationally competitive over the longer term on the basis of their ability to become innovative and 'learning regions' (Morgan, 1997)?

If the post-Communist countries and their regions indeed prove to be adaptable, what role will the legacy of the Communist economic system play in the process of adjusting to Western capitalism? Will such institutional legacies become a fundamental source of the innovativeness and international competitiveness of regions (Stark, 1992, 1996)? Or, more bleakly, will this specific heritage based on the rationality of central planning become an obstacle to capitalist rationality, to innovation and adaptability (Smith, 1995; Smith and Swain, 1998; Van Zon, 1998)? In that case, will the compatibility with the West require a replacement of such a heritage by the import and 'cloning' of Western institutional forms with their likely negative long term consequences (Grabher, 1994, 1997; Gowan, 1995; Sadler and Swain, 1994)?

This thesis engages with these debates and intends to provide answers to such questions about the future adaptability and competitiveness of post-Communist regions. It argues that the answers to these questions are closely connected with the character of the specific institutional legacies of regions, that is, with their inherited forms of embeddedness. At the same time, however, such answers also depend on the character of the processes which transform the institutional and cultural heritages of regions. In the post-Communist societies, the transformation of locally-specific institutional legacies and the increase of regional unevenness has been triggered by three related processes that accompanied the collapse of Communism. The first of these is the process of marketization responsible for the liberalization of state-controlled prices which used to favour some enterprises and industrial sectors while disadvantaging

others. Second, the process of privatization was aimed at unleashing the forces of supply and demand by loosening the enterprises from their subordination to central planning. And third, the process of internationalization opened up the markets of post-Communist countries to foreign competition and exposed local companies to a selection based on the rationality of Western capitalism.

Compared to the complexity of all these aspects of post-Communist transformations, the overall aim of this research is relatively modest. The thesis focuses on three regions in the Czech Republic and seeks to explain the uneven outcomes of their internationalization by analyzing the processes that transformed and reworked their inherited forms of embeddedness. It further explores and attempts to assess the impact of internationalization on the adaptability and competitiveness of the 'institutional set-ups' (Amin and Hausner, 1997) of these regions. In this way, the research contributes to the discussion about the compatibility of the legacies of Communism with capitalist economies, as well as to the discussion about the wider issue of what kind of institutional arrangement can increase the positive effects of internationalization and enhance the competitiveness and adaptability of regions.

The key concepts and analytical framework of the thesis

In order to fulfil the task set above and to explore the role of internationalization in transforming the legacies of Communism in the three Czech regions, the research develops concepts capable of analyzing such processes. These need to be able to specify and assess the impact of a fairly abstract process of internationalization in relation to the equally abstract concepts of locally-specific 'legacies' or 'institutional set-ups'. The three key concepts developed and explored in this thesis are internationalization, embeddedness and adaptability. These, together, lay the basis of the explanatory framework used for the analysis and assessment of the diverse consequences of internationalization for individual regions.

The concept of *internationalization* is used throughout the thesis to describe the process which brings 'the market' - that is, the competitive environment of Western capitalism - to post-Communist countries. It is a process that integrates parts of the

previously isolated Communist socioeconomy into the socioeconomic system of international or global capitalism. Although internationalization is a fairly common process in most parts of the world, it has a particular importance in the post-Communist countries. In these countries, internationalization represents a very powerful force of great symbolic value which sets an important example and is assumed to play a considerable role in shaping the future character of their market environment (Swain, 1998; Swain and Hardy, 1998).

Internationalization exerts a systematic pressure on actors in post-Communist countries to adjust to an economic logic and rationality which dominates in capitalist societies. It pushes actors to accommodate new values, practices and meanings associated with Western ways of doing business, with the behaviour of Western companies, investors or trading partners. Compared to the rationality of centrally planned economies, the rationality of international - or more specifically Western capitalist - economies is based on greater accountability, financial discipline and a much greater stress on lower production costs and higher quality of products.

However, these common features cannot obscure the fact that the actual impact of internationalization varies from region to region. In fact, the central issue that runs throughout the thesis stresses precisely the great variety of regional outcomes produced by the process of internationalization. The concept used in this research to explain this diversity is that of embeddedness.

The concept of *embeddedness* is used to describe the dynamic, locally-specific cultural and institutional arrangements of individual regions. Moreover, embeddedness represents a dynamic arrangement or context of action which both shapes and is shaped by actions of actors in individual regions. This concept encompasses the locally-specific arrangements of networks (Granovetter, 1985/1992), as well as the practices, meanings and relations of symbolic power (Bourdieu, 1977; Latour, 1987; Callon, 1991) which allow actors to coordinate collective action.

It is argued in this thesis that the different ways in which actors accommodate international networks and practices are influenced by their existing forms of embeddedness. The role of internationalization in the uneven regional development is

then analyzed by studying aspects of the embeddedness of actors which are transformed by this process. It is further argued that an understanding of cultural processes which transform embeddedness in this 'wider' understanding can, in turn, explain the diverse ways of accommodating internationalization in individual local contexts. Subsequently, the locally-specific forms of embeddedness and their transformations play a major role in explaining the capacity of regions to 'hold down' the process of internationalization. That is, they largely determine the ability of regional economies to use internationalization as a source of ability to adapt, learn and innovate, which are now understood to be the key aspects of the competitiveness in an increasingly globalized world.

The transformation of existing forms of embeddedness, however, is not presented in this research as a 'product' of a uniform and unidirectional force of internationalization. Instead, regional transformation is described as a process in which locally-specific forms of embeddedness interact with internationalization. Neither the concept of embeddedness, nor that of internationalization are pre-given. They are both an outcome of their dynamic mutual interaction which is interpreted by actors and mediated through their actions (Latour, 1987; Callon, 1991). The mediated interaction and mutual shaping gives both internationalization and embeddedness their particular content and meaning which are specific to local contexts.

The variety of interactions between embeddedness and internationalization translate locally into a variety of institutional arrangements which can have both negative and positive consequences for the future of regions. In some cases, the actors are able to use the locally-specific forms of embeddedness in ways which turn the international networks and practices to the benefit of the region or locality. They turn internationalization into an element enriching an existing form of embeddedness which might increase the chances of the region to sustain competitiveness over a long term (see e.g. Pavlínek and Smith, 1998). In other regions, however, internationalization might transform the local institutional set-up and forms of embeddedness in a way that limits scope for innovative forms of action. In such cases internationalization often results in some sort of branch plant economy whose competitiveness is based almost

entirely on cheap labour costs and whose longer term future is quite uncertain (see e.g. Grabher, 1994; Smith and Ferenčíková, 1998).

In order to grasp and assess such a variety of regional transformations, a third key concept of *adaptability* is introduced. Adaptability is a concept which is used to assess the character of the new, regional institutional set-ups arising from the interaction between internationalization and embeddedness. The concept of adaptability is used in this thesis to discern between the short term and long term effects of internationalization. It allows one to determine the following issue: whether the process of internationalization makes regions competitive in the short term but at the cost of their long term ability to adapt and compete, or whether such process increases the chances of long term regional competitiveness by improving regions' ability to sustain the process of adaptation and 'to learn to adapt' (Grabher, 1993b, c, 1994, 1997; Sabel, 1994; Amin and Hausner, 1997; Grabher and Stark, 1997a, b; Morgan, 1997; Amin, 1998).

The research seeks to build up an analytical framework based on these three concepts of internationalization, embeddedness and adaptability. By means of these concepts it attempts to explain the success or failure of three Czech regions in gaining international competitiveness and in developing long term adaptability through the process of internationalization. In assessing the adaptability of the three regions the research shows how the local forms of embeddedness and the actions of local actors were able to 'hold down' and accommodate internationalization in a way that was or was not beneficial to the regional economy.

Furthermore, the examples of the three regions aim to substantiate the claim that the differentiated ability of regions to 'hold down' internationalization and develop it into a creative force can be explained and assessed by analyzing the interaction of internationalization with the various aspects of actors' embeddedness. The empirical research demonstrates how the analysis of such interactions can and should involve all the aspects of embeddedness. It should include *both* what I call the 'network heritage' of actors' personal relationships (Granovetter, 1985/1992), as well as the transformation of power relations which give legitimation and recognition to actors (Bourdieu, 1977,

1990, 1993a, b) in the new capitalist environment and which allow them to transform the collective practices and understandings of other actors (Latour, 1987). The empirical findings of the three regional case studies then serve as a grounding for more general claims. On this basis the thesis attempts to explain why internationalization in some regions transforms local institutional set-ups in ways which increase the reflexivity of actors and the long term adaptability of regions, while in others it reduces actors' scope for action and the ability of regions to adapt independently.

Structure of the thesis

The thesis consists of eight chapters. The first four chapters develop the theoretical framework of the argument through which the empirical material is to be examined. This is followed by a methodological chapter which introduces the empirical element developed in the subsequent three chapters.

The task of Chapter One is to develop the concept of embeddedness in relation to economic action. It makes a case for why this concept should be understood in a 'wider' sense than just a 'networked' one (Granovetter, 1985/1992; Swedberg and Granovetter, 1992) and why it should also involve the conceptualization of power in social relations. Such a 'wider' concept of embeddedness is subsequently developed by engaging with the ideas of Pierre Bourdieu (1977, 1990) and also with elements of actor-network theory (Latour, 1987; Callon, 1991).

In Chapter Two the thesis moves on to the level of regions and the analysis of regionally-specific forms of embeddedness. Through a discussion of the geographical, economic and sociological literature, this chapter develops the analytical concepts of action framework (Storper, 1997; Storper and Salais, 1997) and institutional set-up (Amin and Hausner, 1997) enriched by the insights of Bourdieu's work and of actor-network theory. These concepts are further used in an attempt to create an institutional and culturally informed framework for assessing the differences in the adaptability of regions and for predicting their long term competitiveness.

Chapter Three shifts the focus to an historical introduction to the operation of Communist economies, with special attention paid to the former Czechoslovakia. It

analyzes the functioning of centrally planned economies and the regionally-specific institutional legacies produced by this specific socioeconomic system. Following that, Chapter Four turns attention to the processes that followed the collapse of the Communist regime in former Czechoslovakia and which re-worked the regionally-specific legacies of Communism. It pays attention especially to the processes of privatization and internationalization which began to redefine the notions of competitiveness and adaptability in the post-Communist economic environment.

Chapter Five elaborates the methodological position of the research and specifies the relation between the theory and empirical work, which is then considered in the following three chapters. These chapters examine three regions in the Czech Republic which, since the collapse of Communism, have experienced a substantial degree of internationalization.

The regional case studies attempt to explain the different abilities of the institutional set-ups in each of the regions to adapt to the new, internationalized economic regime characterized by increasing competitiveness and a logic of profit making. Chapter Six analyzes the region of Lanškroun, which is dominated by the electronics industry and the Japanese-American-British multinational AVX. Chapter Seven examines the region of Mladá Boleslav and the situation of the subcontractors of the car manufacturer Škoda after its takeover by the German company Volkswagen. Finally, Chapter Eight explores the consequences of internationalization in the Rožnov pod Radhoštěm region which again is dominated by the electronics industry and more recently witnessed a major investment by American electronics giant Motorola. All the three regions were relatively successful in meeting the demands of internationalization which almost immediately increased their competitiveness. However, despite the success in adjusting their institutional legacies to Western capitalism, not all of the regions were equally successful in 'holding down' internationalization in ways that increased their adaptability and long term competitiveness. Nevertheless, the findings of Chapter Eight and particularly of Chapter Six show that at least in some cases internationalization can combine with local institutional legacies in ways that produce

new, independent sources of competitiveness and enable the post-Communist regions to sustain their adaptability over the long term.

The conclusion pulls together the insights of the empirical findings and specifies the characteristics of the regionally-specific institutional set-ups that are capable of 'holding down' internationalization. Drawing on the empirical findings, the conclusion specifies under what circumstances post-Communist regional economies can achieve competitiveness and adaptability in the globalized world economy. However, the lessons drawn from the empirical case studies do not represent an attempt to prescribe a universal strategy for other post-Communist regional economies. This research tries to pinpoint and explain why and how specific circumstances occurred in the three case study regions and with what consequences for their future without offering any universalist claims for 'solutions' or for a transferability of development strategies to other regions with different institutional legacies. At the same time, the thesis attempts to provide a new way of thinking about regional change that could be applied more generally and offer some lessons also for analyzing the economic success or failure of other regional settings.

CHAPTER ONE: CONCEPTUALIZING ECONOMIC ACTION: NETWORKS, EMBEDDEDNESS AND SYMBOLIC POWER

INTRODUCTION

Over the past two decades or so investigation into the theories on the border between economics and sociology experienced a revival of interest. Some economic theorists started to realize that economic action is not simply or exclusively directed by the motives of profit maximization and that people only rarely behave in the ways that neoclassical economics expects them to behave. Many traditional assumptions of 'standard' economic theory have been seriously challenged and undermined by those working within a framework of heterodox, non-mainstream economic theory (see e.g. Hodgson, 1988, 1993; Zukin and DiMaggio, 1990; Samuels, 1995). Sociology, on the other hand, began to loose much of its respect for the monopoly that economics exerted on research into economic topics and started to 'trespass' more frequently into the domain of economists. Thanks to this trend there has been a substantial inflow of literature which is more aware of the fact that the separation of categories of social, economic, political and cultural and the subsequent compartmentalization of social science is far from automatic and useful (for good reviews see e.g. Swedberg, 1990; Smelser and Swedberg, 1994). As a result of these developments economic action is today again - as it was at the time of Max Weber - regarded by many social scientists as a particular type of social action and the 'social' is seen as an integral part of the 'economic' (Swedberg and Granovetter, 1992; Ingham, 1996a).

These arguments have had a substantial influence on theorizing in the field of economic geography where also it has been appreciated that the "economy is not a universal entity, governed by an always-the-same formal logic, but a set of activities differently instituted in different times and spaces" (Crang, 1997, p.10). One of the prominent arguments developing this position has been the debate over the notion of embeddedness of economic action in the wider structures of the society. This debate

originated in what has become known as the New Economic Sociology (NES) and it had (and still has) important implications for research in economic geography (see e.g. Amin and Thrift, 1997).

The main aim of this chapter is to build on the recent debates in economic sociology and to construct a theoretical base suitable for the analysis of regional economies and regional change which takes into account this socially embedded nature of economic activity. However, before we turn our attention in the next chapter to the issue of regional change and adaptability of regional economies, it is important to specify the exact meaning of the notion of embeddedness as it is employed throughout this research. This chapter therefore explores the concept of embeddedness and explains its role in explaining the character of economic action.

This chapter comes in two substantial parts, each with four separate sections. The first section of the chapter traces back the origins of the concepts of embeddedness and network in social sciences. The following two sections describe two distinct traditions of understanding embeddedness, here referred to as 'the governance approach' (Powell and Smith-Doerr, 1994) and 'the analytical approach' advocated by Mark Granovetter (1985/1992, 1993) and the New Economic Sociology (Swedberg and Granovetter, 1992). These two sections try to 'unpack' and clarify the meanings of the key concepts of the debate about embeddedness which have often been a source of much confusion and they attempt to specify the weaknesses in each of these approaches. This is followed by a section which gives an overall assessment and criticism concerning the limitations of the networked concept of embeddedness.

In the second part, a 'wider', alternative notion of embeddedness is developed that goes beyond its networked understanding by NES. It begins with a section which argues that the concept of embeddedness can be fruitfully expanded by integrating parts of the work of Pierre Bourdieu (1977, 1990, 1993b) into a theoretical framework that involves a more appropriate conceptualization of power. The next two sections discuss Bourdieu's concept of social capital and its power aspects, as well as explain Bourdieu's concept of symbolic capital and symbolic power. The final section pulls together an alternative analytical framework of 'wider' embeddedness suitable for the analysis of

economic action. This framework consists of the NES, Bourdieu's theory and also elements of actor-network theory. The conclusion then discusses the relationship between the 'wider' understanding of embeddedness and the issue of adaptability of actors in the socioeconomy. In this way, the conclusion sets the scene for a discussion of the issue of the adaptability and competitiveness of regions and localities which is presented in the following chapter.

EMBEDDEDNESS, NETWORKS AND ECONOMIC ACTION: A CRITICAL ASSESSMENT

The origin and meanings of embeddedness

The history of NES, as well as the resurgence of the notion of embeddedness, is closely connected with the discontent among sociologists about the way economic phenomena have been treated by economists and by some sociologists. The seminal article of Mark Granovetter (1985/1992) set the scene by arguing that there is a need for a 'middle ground' between the undersocialized conception of complete methodological individualism and the oversocialized conception of structuralism. The former, according to Granovetter, is exemplified by neoclassical economics which sees "actors as atoms outside a social context" (1985/1992, p. 58). While the latter is represented by substantivist anthropology, but also by some contemporary sociologists and economists, who see actors as if they adhered "slavishly to a script written for them by the particular intersection of social categories that they happen to occupy" (1985/1992, p. 58). Granovetter concludes that both these approaches share what he calls "atomized conceptions" of individuals. He argues that actors' "attempts at purposive action are instead embedded in concrete, ongoing systems of social relations." (p. 58), or, in other words, that their actions and characteristics are derived from relational ties with other actors. Embeddedness thus returns to the vocabulary of social science.

Granovetter borrowed the term *embeddedness* from Karl Polanyi's substantivist anthropology (1944/1957) which is perhaps surprising as he is critical of its

oversocialized understanding (Granovetter, 1993). This subsequently caused some confusion among Granovetter's followers about the precise meaning of embeddedness. Unlike Polanyi, who stressed that profit making and its economic rationality are not necessary attributes of human societies and were only imposed on humans with the advent of capitalism and its disembedding effects (1944/1957, Chapter 4), Granovetter does not reject the existence of rationality in economic actions altogether (1985/1992, p. 75). He argues that rationality is conditional on the way the action is embedded or socially situated in wider social relations and that "economic actions are embedded in different ways" (Swedberg and Granovetter, 1992, p. 10). What is common to all economic actions, however, is the fact that they are "embedded in ongoing *networks* of personal relationships rather than being carried out by atomized actors" (Swedberg and Granovetter, 1992, p. 9; emphasis added).

The use of a networked concept of embeddedness allows Granovetter to avoid the trap of structuralist atomization because the actual form of embeddedness is then specific to individual actors. It also has other advantages. Networks which provide the concrete interactions of individuals and groups are sufficiently concrete to be observed empirically (Swedberg and Granovetter, 1992, p. 9-10). By looking at how networks were established and developed over time Granovetter's approach can prevent the abstraction of social analysis from history and can also provide the grounds for analyzing the position of actors in the wider structure of networks (1985/1992, p. 57). All of this allows for a far less rigid interpretation of economic action than either the under- or over-socialized approaches.

By transforming the notion of embeddedness into sets of networks and by making them central to his analysis of economic action, Granovetter obtained the "middle road" (1993, p. 38) between determinism of social structures and determinism of stable individual preferences. Networks became the explanatory apparatus that provided the grounds for non-functional and non-atomized explanation of socioeconomic action. This project subsequently attracted substantial attention among other social scientists and produced a number of reactions. Some of them, which are relevant to this argument, are briefly summarized in the next two sections under the

broad headings of 'Networks as a form of governance' and 'Networks as an analytical tool'.¹

Networks as a form of governance

The study of networks has a long history in social sciences, especially in organization studies. However, with the interest in the concept of embeddedness this stream of research gained a new impetus and a large number of publications, by sociologists, economists and geographers alike, have appeared in this area since the mid-1980s (for a summary and review see Thompson *et al.*, 1991 or Powell and Smith-Doerr, 1994). Their common feature is - similar to Granovetter's concepts of embeddedness and networks - the rejection of neoclassical assumptions and a focus on networks as the means by which resources are mobilized and action is carried out. Networks are seen as "a social glue that binds individuals together into a coherent system" (Powell and Smith-Doerr, 1994, p. 369). They represent "a kind of organizing logic, a way of governing relations among economic actors" (p. 368).

This stream of research has a strong empiricist inclination and has been very productive in illustrating the important changes in the economy of the 1980s with its - sometimes overgeneralized - shift from hierarchical organization of firms to the more flexible organizational structures in which networks are central. Much of the research within this line of research has focused on the issues of new flexible and networked arrangements of relations between firms (Powell, 1991; Thompson *et al.*, 1991), in particular, on subcontracting and collaborative ventures (Lorenz, 1988), often with links to the concept of industrial districts in the flexible specialization debate (see e.g. Powell and Smith-Doerr, 1994; Sayer, 1997).

Following the line set by Granovetter (1985), this approach argues that much of the dichotomy between 'market' and 'hierarchy' can be overcome by the use of the concept of network. Networks not only break this dichotomy but, according to the governance approach, also represent the source of embeddedness. Similar to

¹This classification of two broad types of research is adopted from Powell and Smith-Doerr (1994). Although in their case these terms are used more narrowly for classification of the research of the 'networks literature', I think it can be easily extended to include the literature on embeddedness too.

Granovetter, interactions among economic actors are seen to take on a networked form, but unlike in the case of Granovetter and Polanyi, networks and embeddedness are regarded by a governance approach as positive features in their own right (Powell, 1991; Thompson *et al.*, 1991; Powell and Smith-Doerr, 1994; Uzzi, 1996).

The main difference between the governance approach and Granovetter's theory is that the former associates networks and embeddedness with trust and reciprocity. Trust is taken for a feature that distinguishes networks from other types of social interactions (see esp. Powell, 1991) and it is common among authors who represent the governance approach to see trust-based networks as a crucial element that actually makes the relationships 'embedded'. Networks, unlike either markets or hierarchies, are then supposed to 'embed' individuals' behaviour in a way that "shifts actors' motivations away from the narrow pursuit of immediate economic gains towards the enrichment of relationships through trust and reciprocity" (Uzzi, 1996, p. 677).

In this type of literature it is often presumed that 'embedded' relations enable and smooth action, enhance exchange of 'thicker information', know-how and tacit knowledge; that 'embeddedness' can increase the capacity to learn, creates interdependencies which involve sunk costs, allows for joint problem-solving and also increases innovativeness (see e.g. Uzzi, 1996; Powell and Smith-Doerr, 1994). In other words, in this strongly normative understanding, 'embeddedness' is defined by the existence of trust-based networks which are associated with superior economic performance of firms and economic actors.

Understandably, much attention is devoted to the empirical analysis and subsequent categorization and classification of the qualities of networked social relations among actors or firms. Authors who have been developing arguments along these lines often use typologies developed and try to assess the degree of 'embeddedness' and 'disembeddedness', or the degree of trust involved in transactions and interactions. Examples of this are Ray (1995) using Okun's distinction between auction and customer markets (Okun, 1981), Helper (1993) using concepts of 'voice' and 'exit' developed by Hirschman (1970) for analysis of the differentiated quality of subcontracting relations,

or Sako (1992) distinguishing between arm's-length contractual relations and obligational contractual relations in subcontracting.

However, putting emphasis on selected characteristics leads to several shortcomings in the governance approach. The major one is its dichotomic perspective which is probably best reflected in the distinction between 'embedded' and 'disembedded' relations. It might well be true that the modern capitalist economy and the associated "divisions of labour, markets, money and capital are [...] disembedding forces" (Sayer, 1997, p. 19). However, as both Polanyi (1944/1957) and Granovetter (1985/1992) were aware, this does not mean that economic action could be completely disembedded from social relations since the disembedding from one set of relations implies embeddedness in another one (Polanyi, 1944/1957). This dichotomy then does not seem to represent an accurate understanding of embeddedness in its original sense, nor does it account for the complex reality that cannot be reduced to a set of dualisms.

Another shortcoming is the underlying assumption that networks are in principle 'good', 'democratic' or more 'efficient' as some of this literature would lead us to believe. Clearly, there are also some networks which are not based on trust, yet they still represent a form of embeddedness of economic action (see Granovetter, 1985/1992, p. 61-2 or 1993). Embeddedness and networks in which actors are embedded thus do not always have to be 'good', 'efficient' or economically advantageous (Sayer, 1995).

Despite a strong tendency towards the construction of ideal types and often somewhat prescriptive nature of the 'networks as governance' approach (Powell and Smith-Doerr, 1994), the typologies provided by these studies are probably also their greatest strength. The recognition that *trust* in social relations can enhance overall productivity and efficiency (Helper, 1993; Sako, 1992; Uzzi, 1996), which is a point of convergence of most studies in this approach, has made trust a central issue of much of network analysis.

Nonetheless, this literature moves very little beyond the elementary recognition of the importance of trust for economic performance. It is certainly true that "different types of exchange can be defined according to the level of trust present" (Misztal, 1996, p. 16), but trust is not a characteristic specific to individual interactions and networked

relations among actors only. Trust exists also in a more general form, independently of networks, as a part of a collective organization of social life (Misztal, 1996; Sayer, 1997). The failure to recognize this fact leads to a more general shortcoming of the governance approach: despite some statements to the contrary (Powell and Smith-Doerr, 1994), it simply does not deal with either the issue of wider social structures, nor that of power, in any systematic way (Ingham, 1996a).² Instead, it reduces the notion of embeddedness to a mere presence or absence of trust in the networks which are presented as isolated binary relations between pairs or small numbers of actors. In other words, the attention paid to the qualities of networks is often not supported by an equally rigorous analysis of the relation between the networks themselves and the wider system of social relations and power in society.

Moreover, this approach usually focuses just on a particular type of network, especially the networks of production and exchange, or more narrowly just on the inter-firm networks. Such an understanding, then, is a misinterpretation of the concept of embeddedness as presented by Polanyi (1944/1957) and later adapted by Granovetter (1985/1992), who were both aware of the need for a "detailed analysis of social structure and of the complex way social and economic motives and actions are intertwined" (Granovetter, 1993, p. 38; 1991). Moreover, this approach also misses the opportunity for intermixing and blurring the boundaries between the 'cultural' and 'economic' (Crang, 1997) which is provided by the concept of embeddedness.

The following section returns to the work of Mark Granovetter. It explains how the literature described here as 'the analytical approach' associated especially with the New Economic Sociology developed the concepts of networks and embeddedness in a way that treats successfully some of the problems of the governance approach.

Networks as an analytical tool: contribution of New Economic Sociology

The difference between the 'analytical approach' and the one that sees networks as a form of governance is not so much in the ways they conceive of networks themselves.

²Compare this also to the peculiar absence of the analysis of power relations in most of the related stream of literature on industrial districts.

Their differences are in the roles which they ascribe to networks and in the ways they understand the relation between networks and embeddedness. Unlike the 'governance approach' which sees trust-based networks as the characteristic which 'embeds' actors and enables them to use networks as the media for mobilizing resources, the analytical approach sees networks also as (micro) structures of the social world. Networks, according to the analytical approach, do not only enable action, but they also restrict the scope for potential actions and predispose the behaviour of actors. In other words, economic action is still regarded as embedded in networks of social relations, yet it is also understood as "structurally embedded in a wider network of [...] relations" (Granovetter, 1993, p. 20). Thus this conception of embeddedness is much wider in so far as it takes into account the impact of the wider social context of the operation of networks and does not restrict this context solely to the position of actors in their personal relations with others (Granovetter, 1990).

The analytical approach is much more closely associated with the work of Mark Granovetter (1985/1992, 1990, 1991; Swedberg and Granovetter 1992) and some other members of NES such as Burt (1993) or Portes (1995).³ Also some authors who are not directly associated with NES would, in my opinion, fit into this group because of their similar methodological approach (e.g. Grabher, 1993a, 1993b, and some of the contributors in Grabher's collection, namely Hökansson and Johanson, 1993).

While the 'governance approach' contents itself with a focus on networks as relationships among actors and on the quality and characteristics of these networks, the analytical approach goes beyond this position. It neglects neither the qualities and content of networks, nor the important role of trust in mobilizing networks (Granovetter, 1985/1992). Yet, in addition, it also appreciates that even the trust-based networks create micro-structures which can restrict action in both positive and negative ways (Lyon, 1997).

³Here I am slightly adapting the original classification developed by Powell and Smith-Doerr (1994) who provide a substantial review of this literature, but fail to appreciate the major methodological differences between the two approaches. Instead, they argue for the "points of convergence and common themes" (p. 370) between the analytical and governance approaches.

Subsequently, the analytical approach acknowledges that trust-based networks can lead to a 'lock-in' of the present structure of networks which can become obsolete in time (Grabher, 1993b, 1993c), or they can reproduce the present network structure despite its obvious inefficiencies (David, 1985, 1993; Arthur, 1989⁴). All these studies are good examples of the ways that networks enable, but also restrict potential economic action. At the same time, they also represent examples of how the analytical approach accounts for the importance of history in network analysis, and for the fact that the existing network structure created in the past is predisposing actors to certain actions and behaviours. Seen from this perspective, networks represent not just the relations and interactions but also the dynamic and changing structures of society created by previous network activities (Granovetter, 1991; Swedberg and Granovetter, 1992; Portes, 1995; Ingham, 1996a).

Equally important is the attention paid by the analytical approach to the process of network construction through interactions among individuals. This allows the analytical approach to preserve the concern with the ways the structure of networks changes as well as to include dynamism in its explanation. The process of change of the network structure, the role of contingency in historical development of individual networks and the path-dependent nature of change are thus all well incorporated into the explanatory framework (Swedberg and Granovetter, 1992). The understanding of networks and embeddedness presented by the analytical approach thus seems quite successful in creating a framework which is able to grasp the structural constraints influencing economic action (i.e. the concept of networks as social micro-structures) while avoiding the dangers of oversocialized concepts of social structure feared by Granovetter (1985/1992) (e.g. big implies powerful, small implies powerless etc.). Furthermore, it also gives the notion of embeddedness both a dynamic and a historical dimension.

To give a couple of examples of how the micro-structures created by networks allow for both a dynamic and an historical, non-structural explanation, we can think

⁴These authors are not themselves members of the NES but they are often used as an important point of reference by many 'new economic sociologists', including Swedberg and Granovetter (1992).

about the way network structure affects the power positions of two firms subcontracting to each other. Take a small firm, for example, that has been supplying a big firm for years. As a consequence of its position this firm has temporarily, at least until the big firm finds a suitable substitute, the power to put pressure on the big firm which is locked into a particular network. Or, in another case, because one firm is a monopoly producer and a major customer of another firm the former has, thanks to its structural position in the networks, the potential to exercise much more pressure through the threat of withdrawal than its less dominant supplier.

Although the concern with *power* in the analytical approach to networks and embeddedness is rarely made explicit, the two examples show quite clearly that it still tells us quite a lot about the capacity for power and influence among actors.⁵ This is because embeddedness (or 'social capital' in the case of Burt, 1993) described by the analytical approach takes into account not only the qualitative characteristics of networks, but also the position of an actor in their structure. Some authors within this group also acknowledge the power aspects of actors' reputation and status acquired through their previous activities (Granovetter, 1990, 1993; Burt, 1993; Portes, 1995). In such a way the analytical approach recognizes that concrete forms of embeddedness create different opportunities for actors (Burt, 1993; Portes, 1995), that the inclusion or exclusion from particular networks creates a form of power relationship which either empowers or disempowers actors and that networks can be used as a "tool for analysing power and autonomy" (Powell and Smith-Doerr, 1994, p. 369). The attention which the line of argument represented by Mark Granovetter and the NES pays to the role of social structures and constraints created by network activity brings at least an implicit recognition of the importance of power in the analysis of economic action.

Assessment of networked concept of embeddedness

⁵ Although most authors only touch on this issue, the implicit importance of power is present in much of this line of argument. Granovetter (1985/1992) stresses that "power relations cannot be neglected" (p. 71) and several times mentions the importance of status in economic relations (1993); Burt (1993) who talks about social capital rather than embeddedness in networks, acknowledges the relation between social capital, prestige and power; or Grabher (1993b, p. 11-12) who also mentions the important role of power in network interactions.

The networked concept of embeddedness as developed mostly by NES and labelled here the analytical approach seems to provide very useful tools for the analysis of social and economic action. Its stress: first, on the empirical analysis of networks; second, on the centrality of networks based on trust which are seen as means of mobilizing resources as well as the source of reputation; and third, on power included in the structure of the network, together represent a feasible analytical framework. This approach, however, has its limitations and shortcomings.

Firstly, although power is included in this framework, its discussion is quite limited. It largely fails to appreciate that the concept of power and its role in shaping actions of actors cannot be reduced to the micro-structures of networks. This has been rightly criticized by Ingham as stretching "the core of N.E.S. approach too far [which] exposes the shortcomings of confining the idea of social structure to 'social relations'" (1996a, p. 557). The network analysis of the NES can therefore be criticized for neglecting the power aspects of the 'macro' level social processes (Ingham, 1996b). A similar point is made by Beckert (1996, p. 829) who argues that when talking about the social embeddedness of economic actors sociologists should also appreciate the embedding roles of habits, institutions, structures and power. The 'analytical approach' clearly does this only partly, if at all. There is some tentative treatment of social institutions by Swedberg and Granovetter (1992, p. 17) which are described as "the result of slow, social creation [through which] a way of doing something 'hardens' and 'thickens' and finally becomes the way things are done." Despite this important insight the members of the NES neither specify the processes by which institutions are institutionalized, nor do they tell us anything about how institutions *reproduce* themselves.

Secondly and relatedly, the analytical approach fails to address some important aspects of social action: the "emergent properties" of the society (Ingham, 1996a, p. 557). Notions of trust and power (the latter is dealt with unsystematically anyway) are discussed only at the level of interacting individuals, in relation to their networking activities. This understanding of power derived from trust-based networks and the position of actors in the structure of such networks is certainly a valid one and

represents what has been called a networked concept of power of association or alliance (Allen, 1997, p. 62). What is missing here, however, is the recognition that trust and power exist also at a more general level of the society which is not directly influenced by interactions of isolated individuals (Misztal, 1996; Allen, 1997). There is no or very little appreciation of other types of power than the 'networked power', such as the power of generalized trust and morality embodied in the social norms, routines and practices that guide much of economic behaviour (Hodgson, 1988; Misztal, 1996). The analysis of the kind of power which "'fixes' a collective orientation through a complex process of constructed meanings" (Allen, 1997, p. 67) is largely absent from the research of NES. By missing these important aspects of social 'macro-structure', this interpretation of embeddedness fails to appreciate how "embeddedness [is] bound with cultural practices" (Crang, 1997, p.12) and how economic action is related to and conditioned by the power of controlled *routinization* of practice (Bourdieu, 1977, 1993; Ingham, 1996a; Allen, 1997; Crang, 1997).

In order to clarify the critical points related to the concepts of networks and embeddedness as developed by the NES, and also to specify the role of power in routinizing and reproducing economic action, I will now elaborate on the work of Pierre Bourdieu. It will be shown that pulling together the insights of Bourdieu's approach and that of the NES, it might be possible to remedy some of the shortcomings of the concept of embeddedness outlined above. In doing so a 'wider' concept of embeddedness is argued for which can arguably bridge the persisting dualisms between 'the economic' and 'the social' (Ingham, 1996a) and integrate 'the economic' with 'the cultural' (Crang, 1997) in the socioeconomic analysis.

ACTION AND POWER IN THE SOCIOLOGY OF PIERRE BOURDIEU

Practice, power and action

At first sight it might seem that Pierre Bourdieu has little in common with the NES of Mark Granovetter, chiefly because their terminology differs quite substantially. I want to

argue, however, that despite their different understanding of power and action there are some partial but important overlaps in both of these theoretical approaches. Bourdieu, similarly to Granovetter, tries to find a middle ground between the 'oversocialized' and 'undersocialized' conceptions of human behaviour. Although Bourdieu is little concerned with economic action (he would probably not even recognize it as any different from social action), he finds equally disturbing the gap between the analysis of formalism and hermeneutics (i.e. an equivalent of undersocialized methodology) and the explanation of structuralism and interactionism (i.e. oversocialized methodology) (Bourdieu, 1977; Robbins, 1991; Johnson, 1993). Both Bourdieu and Granovetter agree with Polanyi (1944/1957) that economic action is embedded in wider social relations (e.g. Bourdieu, 1977, p. 185), but they diverge in the ways that they analyze this fact.

First of all, Bourdieu uses other words to talk about the social embeddedness of economic action. This is partly because his theory has a far wider ambition to analyze 'social formations' rather than analyzing the relatively narrow notion of economic action. Partly this can also be attributed to the language difference when all of Bourdieu's major works were written in French which lacks the tradition of meaning associated with the English term embeddedness. This, however, does not make Bourdieu's theory any less relevant to the analysis of specific 'kinds' of actions and the analysis of their embeddedness in the wider social relations of the society.

Secondly, Bourdieu's theory is probably not very useful for analyzing the appearance of new phenomena within society (innovations, changes of practices etc.) (Pels, 1997) in which the network theory has achieved some success. This is not Bourdieu's aim, as he is mainly concerned about how the ways of doing things persist within the society and how they reproduce themselves. The major advantage of his approach is its ability to integrate the analysis of individual actors' actions with concerns about the wider and more general, collective aspects of the society (or 'social formations' to stick with Bourdieu's terminology). This is precisely the feature missing in much of the research on networks and embeddedness.

For Bourdieu the key concepts are 'fields' each of which is associated with its specific 'capital' (cultural, social, political, educational etc.):

"Each of the fields is relatively autonomous [but] its structure, at any given moment, is determined by the relations between the positions agents occupy in the field. A field is a dynamic concept in that a change in agents' positions necessarily entails a change in the field's structure." (Johnson, 1993, p. 6).

The actors compete for control and resources which are specific to each of the fields in question. Such competition or struggle over positions in fields, however, does not happen in an entirely arbitrary way because the activity of individuals is immersed in the continually reproduced system of practices (Johnson, 1993; Crang, 1997).

Practice is a form of representation of social structures projected into a mode of behaviour which individuals reproduce through their actions (Bourdieu, 1977; Thompson, 1991; Johnson, 1993). Practices "tend to reproduce the regularities immanent in the objective conditions" (Bourdieu, 1977, p. 78) of the society but they cannot be deduced directly from the social structures. They are not deterministic to the extent that they can be 'read off' from social structures, yet they reflect the social structures to some extent (Bourdieu, 1977, p. 78). According to Bourdieu, different practices characterize different fields and the system of practices produces a form of rationality specific to each field which largely predisposes the behaviour and actions of individuals (Bourdieu, 1977; Johnson, 1993; Crang, 1997).⁶

Practices in Bourdieu's theory thus share a common feature with networks of the NES. They are both ways of doing things, ways of enabling action and they simultaneously represent a major restriction of actors' behaviour. The notion of practice, however, unlike that of networks, has a stronger and more restrictive meaning. It implies unreflective action (Bourdieu, 1977, p. 78-9; Johnson, 1993) on the part of individual actors who are already predisposed "to act in certain ways, pursue certain goals, avow certain tastes" (Thompson, 1991, p. 17). Practice implies doing things in an automatic way without reflecting on how things are done and without considering alternatives. This allows Bourdieu to make the discussion of power and domination in social relations an integral part of his theory. The notion of practice and the process of

⁶Here my brief description of 'practice' is necessarily oversimplified. Practice can not be properly understood and explained without reference to the notion of 'habitus' used by Bourdieu to describe the relation between and translation of social structures into practices in specific social contexts. For the sake of simplicity and clarity of my argument, however, I have decided to omit the discussion of the concept of habitus. Not just because I find it difficult to relate to the analysis of economic action and largely redundant to my argument, but partly also because I personally find it often somewhat confusing and inconsistent (see esp. Bourdieu, 1977, chapter 2).

routinization and reproduction associated with it, allow Bourdieu to go beyond the simple notion of a networked conception of power (see esp. Bourdieu, 1977, Chapter 4). They allow him to extend his analysis to more durable forms of power, to symbolic aspects of organization of society, to forms of domination and authority (Allen, 1997) that both mould and are moulded by human action.

Social capital of connections and networks

Bourdieu, in accord with the authors associated with the NES, acknowledges a networked form of power: the power associated with a particular position within the structure of networks given by previous experience and history of social relations (Granovetter, 1985/1992). For Bourdieu this type of power is derived from the *social capital* which is described as "what ordinary language calls 'connections'" (1993b, p. 32). For Bourdieu, again similar to the work of the NES, social capital represents also the position of an actor in the web of connections or social relations determined by the extent of connections. Social capital and the power derived from it thus depends on the size of 'clientele', that is, a network of individuals tied by obligations to the particular actor. These individuals, their skills and capabilities represent the social capital which can be mobilized for support of one's claims and actions. The social capital of actors is thus closely related to the reputation, prestige, honour and trustworthiness which they have accumulated over the past since all these features tend to increase with the size of a clientele (Bourdieu, 1977, Chapter 4). In order to be of use, the networks which represent social capital need to be maintained by regular interaction, that is, these "social relations [...] must be kept up through nothing less than a process of continuous creation" (Bourdieu, 1977, p. 189). The social capital is therefore not readily transferable from one individual to another.

Social capital has a specific position in Bourdieu's theory. Unlike other capitals this one does not have its own 'field' in which it could be used and accumulated. It acts instead as a medium linking together different fields and capitals and enables a

transmutation of one type of capital into another (e.g. cultural capital into economic, educational into economic and vice versa etc.) (Bourdieu, 1993b, p. 32-3).⁷

Bourdieu in contrast to the NES does not elaborate on how the networks of social capital are constructed by individual actors and simply accepts their existence and reproduction in time (Bourdieu, 1977). Instead, he pays attention to the ways in which the connections or networks of social capital empower individuals. The social capital of connections, reputation and prestige is an important asset in its own right as it represents an important means of empowering actors and a means of appropriating different types of capital (economic, cultural or any other). It represents nevertheless only one aspect of the process by which individuals can be empowered. Moreover, according to Bourdieu, reducing the power relations in the society to relations of communication (i.e. network activity) would be a form of an "interactionist error" (1991, p. 167).

For Bourdieu networked interactions cannot be divorced from the symbolic aspects of social life (Johnson, 1993) because social capital may transform itself into symbolic capital; that is, the form of power which is associated with "cognition [*connaissance*] and recognition [*reconnaissance*]" (Bourdieu, 1990, p. 22; original emphasis) at the wider societal level. In contrast to Granovetter and the NES, Bourdieu is very explicit in his argument that socioeconomic action is influenced by a form of power which is not directly associated with networks or with the positions of actors in them. Power, he says, can only be exercised if it is *recognized* (Bourdieu, 1991, p. 170). The potential for power that is present in the networked social capital of actors can only be effective when it transforms into recognition by other actors. In this way, social capital is inseparably connected with what Bourdieu describes by the concepts of symbolic capital and symbolic power.

Symbolic capital and symbolic power

⁷It should be mentioned here that I am not entirely convinced by Bourdieu's understanding of fields as separate areas of social action. It is certainly correct that there are separate fields or spheres of social life where action is guided by different forms of rationality and system of practices, but I believe that these often mix and intermingle with each other in everyday life thus making the notion of field somewhat artificial.

Symbolic power according to Bourdieu is an "aspect of most forms of power as they are routinely deployed in social life" (Thompson, 1991, p. 23). It is a form of power which is part of everyday life and action of all actors, but individuals differ in the degree to which their everyday actions are perceived and accepted by the rest of the society. In other words, their symbolic capital is different.

The *symbolic capital* represents a source of recognition, legitimation and authority of actors which is derived from their accumulated prestige and honour, that is, from aspects of their networked social capital (Bourdieu, 1990; Thompson, 1991). The possession of symbolic capital gives actors the recognition and acknowledgement of legitimation which is granted by the collectivity of other individuals. Those who control symbolic capital have, in turn, the power to present their actions as correct and appropriate. Bourdieu calls this form of power *symbolic power* and although he is not very explicit about how actors achieve it, he elaborates on its effects and on its role in the reproduction and routinization of action.

Symbolic capital, according to Bourdieu, empowers actors to a position from which they can impose on other minds a vision and provides them with a power of constituting the reality by "making people see and believe" in particular ways (Bourdieu, 1991, p. 170). It represents the power to constitute a group and to speak on its behalf, as well as the power of conserving or transforming present classification (Bourdieu, 1990). Symbolic power is thus also a "power mediated by the words that are used to designate or to describe individuals, groups or institutions" (1990, p. 137) and represents a force that makes the world seem self-evident, undisputed and taken for granted (Bourdieu, 1977, 1990). More to the point, symbolic power is a power that makes others reproduce actions and practices in a routine or habitual way, yet often keeping this fact "invisible" and "misrecognized" as such (Bourdieu, 1991, p. 270). Bourdieu asserts on several occasions, that symbolic power can only be exercised to this effect as long as it is recognized as legitimate and taken for granted (Bourdieu, 1977, 1991)⁸.

⁸In this point I do not entirely agree with Bourdieu's argument about taken-for-grantedness and unreflective reproduction of symbolic power by actors. There seem to be many cases where actors may be critical of a particular form of symbolic power and system of practices associated with it but still take part in their reproduction. A good example of this is the operation of Communist regime which will be analyzed in Chapter Three.

The exercise of symbolic power often results in an unreflective reproduction of practices by individuals exercised even by those who are subject to the symbolic order connected with this particular form of symbolic power (Bourdieu, 1990, p. 138). The symbolic power is thus also "a major dimension of political power" (Bourdieu, 1977, p. 165). This power, by virtue of its recognition and legitimation, predisposes behaviour of individuals in ways they are unaware of, by the production and reproduction of certain beliefs and ways of doing things. Moreover, the imposition of a particular symbolic order usually serves the dominant social group, the already powerful, the ones who already control and possess the symbolic capital (Bourdieu, 1977, p. 165). In relation to economic activity, the function of symbolic capital is, according to Bourdieu (1977, p. 164), to secure the reproduction of the power relations. Its role is to help to "sustain economic power by enabling it to present itself as something economically neutral" (Robbins, 1991, p. 116), that is, as a 'natural' part of the economy and an essential part of a 'correct' form of action (Bourdieu, 1977).

Symbolic power represents a form of generalized morality, a system of recognized and appropriate actions and practices, norms and habits, which determine the ways in which different kinds of capital (social, economic etc.) are used (Johnson, 1990, p. 17). This is precisely the aspect of power which Granovetter and his followers fail to appreciate as an important part of the embeddedness of economic action. Although Granovetter occasionally acknowledges the existence of what he refers to as "generalized morality" (1985/1992, p. 62 when talking about "standards of behaviour" among diamond dealers; or p. 60 in reference to Kenneth Arrow) or sometimes habitual behaviour (in his discussion of differences in economic transactions among different tribal societies, Granovetter, 1993, p. 11-17), he nonetheless regards the empirical experience of network interactions and their history as something more important that overrules the habitual behaviour based on social norms and practices (1985/1992, p. 61 and 62-3). At most, the NES recognizes that networks are conditioned by the existing framework of norms and power which they help to sustain.⁹ This is correct and,

⁹Mark Granovetter has qualified this by saying that his recent work (1995) and his work in progress attempt to remedy this weakness and will be more explicit about power relations.

especially in the explanation of novel forms of action which go beyond the existing system of practices, the NES approach may be highly useful. It does not, however, obscure the fact that the NES, unlike Bourdieu, does not present any systematic conceptual framework that could account for the persistence, routinization and reproduction of particular forms of behaviour, of particular practices.

To summarize Bourdieu's argument we can say that the activity exercised by individuals is not only enabled and restricted by the social capital of their networks and the potential for power they derive from them. Actors' actions are also influenced by their relation to symbolic power. That is, by the way their networks are inserted into a system of practices that are recognized as legitimate and are reproduced by actions of other individuals as a matter of routine. The routine character and the reproduction of practices in time then represent an aspect of power which also predisposes actions of actors in both an enabling and a restricting sense. However, the relation of individual actors to recognized and legitimate practices and their symbolic values, is not an equal one. The inequality of this relation thus works as a mechanism of their empowerment or disempowerment. Only the individuals who are endowed with symbolic capital and who are recognized by others have the power to produce and manipulate symbols, practices and their symbolic values (Bourdieu, 1991, 1977, Chapter 4).

Although Bourdieu's theory elaborates on the processes of reproduction and routinization of practices that reinforce and maintain the symbolic power of some actors, his theory is not very explicit about the processes through which actors gain recognition and symbolic power. In this point, as we shall see in the next section, integrating Bourdieu's theory with the NES and elements of actor-network theory (Latour, 1987; Callon, 1991) might be a useful way of extending the concept of embeddedness and turning it into a framework for an analysis and explanation of economic action.

Symbolic power, networks of social capital and economic action

It has been argued that the restricting and enabling qualities of networked social capital cannot be seen as the only force shaping the economic action of individuals and that the

role of symbolic capital and symbolic power is equally important. Yet, in contrast to the networked power of social capital which needs to be maintained by interaction, the symbolic capital and power are supported by the collective recognition and legitimation by other actors who reproduce the symbolic order in their practices. Symbolic power is thus partly internalized by other actors and to some extent independent of individuals' actions. It contains "within itself the principle of its own continuation [which] frees agents from the endless work of creating or restoring social relations" (Bourdieu, 1977, p. 189), but also predisposes the ways in which networks are constructed and for what purposes they are constructed.

From this perspective each particular form of embeddedness involves webs of networks specific to individual actors, as well as differences in actors' relations to the disciplining force of the symbolic power. The actions of individuals, according to Bourdieu (1977, 1990), can then be interpreted more appropriately as an outcome of a complex interaction (or 'struggles', to use Bourdieu's terminology) and mutual transformations between social and symbolic capitals. The actors use their networks in this 'struggle' in their effort to increase their symbolic power of recognition and to accumulate different forms of capital. The struggle, however, takes place according to a logic or rationality specific to an existing symbolic order which restricts the actions by a system of practices recognized as legitimate forms of action.

The interaction and relationship between the symbolic power of recognition and networked social capital can be demonstrated by an example of monetized capitalist societies. Here the fact that financial or economic capital is recognized as a standard of a value is effectively nothing more than a specific form of rationality. It represents a recognized form of symbolic power which, by the virtue of its recognition and legitimation, directs the motivations of actors' actions in particular ways. In the case of a capitalist society, the practice is recognized as legitimate when it leads to profit making (Bourdieu, 1990).

However, the important role of symbolic power in guiding and setting the accepted standard and underlying rationality of networking activity does not imply that the means of recognition could not change over time. Although Bourdieu's theory does

not specify adequately the mechanisms by which the practices and forms of recognition change, his specification that such change is an outcome of the process of interaction and transmutations among different forms of capital (Bourdieu, 1990) provides a clue. What Bourdieu means is that economic action which takes a form of network interaction affects simultaneously the networked power of actors *and* their symbolic power of recognition. The network activities can change the position of actors in the structure of networks and thus transform their social capital and their potential for the exercise of networked power of association. This is the case when the network activity of individuals either increases or decreases the number of other actors, skills and capacities that they can mobilize in the future. At the same time, however, every action is in some way related to and interacts with the existing form of symbolic power. Every actor can therefore either conform to or, on the contrary, challenge and change the practice recognized as legitimate.

In concrete terms, such challenges can take, for example, the form of new organizational practices that suddenly appear and start to challenge the existing ones. Under such circumstances those actors who have access to a network through which the newly recognized and more 'efficient' practice is being distributed can use their network position and their 'power to' (Allen, 1997) in a way which transforms their networked social capital into a greater symbolic recognition and power. In this way, the action of actors can also transform their own recognition by the collectivity of other actors and increase, or decrease, their symbolic power. The actions of individual actors can thus transform their own networked social capital as well as their symbolic capital and degree of recognition.

The 'size' and the structure of both social and symbolic capital that individual actors accumulate are thus reflected in their actual actions (Bourdieu, 1990). They shape the actors' actions, but can also be shaped and transformed by them. The study and explanation of economic action should therefore take into account the embeddedness of actors in, first, the networks of interpersonal relations which may transform the recognized practices and, second, in the relations of symbolic power which give actors different degrees of recognition and may stabilize their actions into a collective practice.

In order to understand how exactly the actions of individuals are carried out and how they transform recognized practice, we need to study the concrete context of actor's action, that is, the actual process of construction of networks (Granovetter, 1985/1992; Latour, 1987; Swedberg and Granovetter, 1992; Murdoch, 1995). Yet, in order to understand how these networks are stabilized, reproduced over time, and turned into means of symbolic power and domination, we also need to study the process by which actors and their actions achieve legitimation and approval of others. We thus need to study and explain how actors make others accept a particular representation of facts (Bourdieu, 1977, 1993b; Latour, 1987).

Although Bourdieu does acknowledge this important fact, his own theory nevertheless lacks theoretical concepts that would explicitly tackle the issue of change in the relations of symbolic power, control and domination. Bourdieu's approach and his understanding of power thus remains essentially 'structuralist' (Pels, 1997) and is primarily concerned with the reproduction of existing structures of power and not their transformation. This is in contrast to another important stream of sociological theory inspired by the work of Michel Foucault which makes the change and subsequent stabilization of power relations a central issue of analysis (Pels, 1997).

Prominent among the 'Foucauldian' approaches to the study of power relations conditioning socioeconomic action is actor-network theory (ANT) which aims to analyze power as a process of ascribing meanings to things, giving them differentiated symbolic values and stabilizing power relations through intermediaries (Murdoch, 1995, 1997). In contrast to Bourdieu's concern with the reproduction and stability of power relations, the major contribution of ANT as developed by Latour (1983, 1987) and Callon (1986) lies in the detailed empirical investigation of the cultural processes through which individual actors gain authority and transform power relations to their advantage. ANT thus deals explicitly with the processes that stabilize individual networks into means of transforming symbolic power and recognized practice. Both Latour (1983, 1987) and Callon (1986, 1991) analyze in detail the ways in which actors become representatives of others and their recognition allows them to exercise control over the actions of others. In their analysis focused on actors who transformed existing

ways of behaviour these two authors demonstrate how individuals can utilize their networks to create a particular representation of reality which is referred to as *translation*. This is a process involving the *enrolment* of other actors, human and non-human entities (Latour, 1987; Murdoch, 1997), by which actors use their existing networked social capital and symbolic recognition to give particular meanings to things. Through the processes of translation and enrolment actors can make others interested, make them accept particular goals and align their interests with those of their own (Callon, 1991; Murdoch, 1995, 1997). If successful, these processes will result in the stability of meaning which, in turn, will empower the actors who translate and enrol others (Murdoch, 1997). Put in other words, the concepts of translation and enrolment provide an essential link between, on the one hand, networks as understood by NES and the concept of social capital and, on the other hand, Bourdieu's concept of symbolic power and recognition. Successful accomplishment of translation and enrolment effectively increases the recognition and legitimization of actors or, in other words, transforms their social capital and networked power into a symbolic power of recognition, domination and authority.

The theoretical insight of ANT, however, should not be understood as an alternative to the present analytical framework of embeddedness based on the NES and Bourdieu's work. Instead, I want to argue, the framework based on the concepts of networked social capital and symbolic power can be supplemented in a productive way by concepts of translation and enrolment originating in ANT. These two concepts open the way for analyzing the dynamics of cultural processes through which networks are stabilized over time and become a source of symbolic power. As such, they can make the present analytical framework much more directly applicable to the empirical analysis of changing power relations and the transformation of existing system of practice. Furthermore, the concepts borrowed from ANT help to avoid the potential problem associated with Bourdieu's approach, namely the dichotomy between the micro and macro forms of power which persists in his work and is not fully resolved.

The rationale for supplementing the present analytical framework of embeddedness with the two ANT concepts is mainly to do with their ability to provide

more concrete and empirically grounded means of analyzing the transformations between social and symbolic capital of individual actors. The analytical framework advocated here therefore allows the research to pay attention simultaneously to the empirical detail, which is characteristic of both NES and ANT, and to the issues of symbolic power and recognition.

The concepts of translation and enrolment originating in ANT, then, contribute in an important way to the understanding of embeddedness as a dynamic concept for explaining economic action. Within this 'wider' framework of embeddedness we can interpret and analyze the economic, or more generally, socioeconomic action as an outcome of mutual interactions between the social capital of networked relations and the relations of symbolic power, whereas the preoccupation with the cultural processes of translation and enrolment makes it much easier to move from the empirical detail of networking to more general concepts of symbolic power, control and domination. Such a conceptual framework allows us to explain the dynamics and change in the socioeconomy characteristic of the NES approach (Granovetter, 1985/1992; Swedberg and Granovetter, 1992), to explain the reproduction and routinization of action in the form of practice (Bourdieu, 1977, 1990), as well as to explain the transformation of practice through actions of individual actors (Latour, 1983, 1987; Callon, 1991). As such, this framework provides a more appropriate conceptual framework for analyzing economic action than the NES or Bourdieu's theory alone. This framework strives to understand the underlying rationality of action. At the same time, however, it also acknowledges that the forms of embeddedness specific to individual actors modify this rationality and translate it into specific systems of practices and logics.

The systems of practices, their rationalities and meanings are bound to vary among actors and also among individual socioeconomic contexts over space. Depending on the past processes of translation and enrolment, each society or community will regard certain practices and properties as legitimate, as a desired, material or non-material 'objectification' of symbolic capital (Bourdieu, 1991, note 7, p. 277). These, in turn, will create diverse preconditions for particular, locally-specific forms of action.

However, the stabilization of *locally-specific* practices and the contestation over their meaning will be issues addressed in the next chapter.

CONCLUSION: ECONOMIC ACTION, EMBEDDEDNESS AND ADAPTABILITY

From the foregoing it follows that economic action is partly determined by space and time specific forms of embeddedness. The first half of the chapter, following the work of the NES, explained that the actions of individuals are embedded in networks and their positions in the web of networks. These, it was argued, give actors the networked form of power of association. The second half of the chapter, using the theory and vocabulary of Pierre Bourdieu, described the networked aspect of embeddedness as social capital and argued that actors are also embedded in relations of symbolic power which play an equally important role in shaping their action. Not all actors, however, are equally endowed either with networked or symbolic power and their attempts to increase their relative powers can be seen as the main reason for the constant change in the forms of embeddedness (Bourdieu, 1990). The existing forms of embeddedness are thus constantly challenged by actors who construct new networks and who possess or strive for alternative forms of legitimation and recognition.

It has been argued that the combination of the networked concept of embeddedness and power of association advocated by the NES, with Bourdieu's concept of symbolic power of recognition can provide an appropriate framework for explaining economic action. Within this framework, economic action can be analyzed and explained as the outcome of interactions between the networked social capital and the symbolic capital in which actors are embedded. The final section of the chapter argued that in order to explain concrete forms of interaction between actors' networked social capital and their symbolic power, it is useful to employ the concepts of translation and enrolment developed within ANT (Latour, 1987; Callon, 1986, 1991). The analysis of the process of translation can explain how actors mobilize and use their networks in order to achieve collective recognition which, in turn, enables them to transform and

redefine the character of symbolic power and the criteria of recognition in specific socioeconomic contexts.

An underlying logic of this analytical framework is a presumption, derived from Bourdieu's work, that the effort of actors to gain recognition or to remain recognized is central to their activities. In this sense Bourdieu's theory has somewhat rationalist assumptions about human behaviour. It presents human action as a maximization of recognition and prestige which follows the logic of accumulation of symbolic, cultural, economic and other capital. This underlying rationality of action is, however, often obscured and made hard to discern by the simultaneous operation of different rationalities associated with diverse and often conflicting means of recognition (Bourdieu, 1977, p. 177-8; Johnson, 1993, p. 8).

Although I am sympathetic to Phil Crang's critique of Bourdieu who leaves little space in his schema "for those girls (and boys) who just want to have fun [and] do not want to win in anyone's terms" (Crang, 1997, p. 10), I still agree with Bourdieu that the main driving force of human action is some form of recognition. Although this presumption might sound rather crude, I nevertheless think that Bourdieu's 'rationalism' in the analysis of economic action is tolerable to some extent. In the specific case of economic action in capitalist economies, which represent the empirical focus of the following chapters, the underlying rationality is largely one of profit making. The recognition based on the ability to make profit and to adapt to changes in order to remain profitable and competitive is the prevailing form of symbolic recognition in the capitalist socioeconomies. We should therefore not forget that actors who fail to adapt to this form of symbolic power of recognition will be forced out of business (Ingham, 1996a, b).

The ability to adapt in order to remain recognized, or competitive in economic terms, should thus be a central issue in the analysis of economic action. Different forms of embeddedness will strongly influence the adaptability of actors and their ability to maintain recognition and competitiveness in dynamically changing capitalist economy. Moreover, concrete forms of embeddedness vary among actors in different socioeconomic contexts across space and they modify the underlying capitalist

rationality of profit making. The concrete actions of actors, their ability to translate and enrol others then turn this rationality into locally-specific systems of practices, meanings and understandings which shape the economic action of actors in individual socioeconomic contexts.

This 'wider' understanding of embeddedness, then, represents an analytical concept which can be used to explain the economic action of individual actors and their adaptability in relation to diverse forms of symbolic capital. In the following chapter, it will be argued that this framework can also be extended to the analysis of regionally-specific forms of embeddedness. The next chapter thus represents an attempt to set up a framework for analyzing regions through the analytical lens of 'wider' embeddedness which, arguably, can provide a way for explaining the differences in the economic performance and adaptability of regions.

CHAPTER TWO: FROM ACTORS TO REGIONS: CONCEPTUALIZING REGIONAL EMBEDDEDNESS AND ADAPTABILITY

INTRODUCTION

Having outlined in the previous chapter a general framework for the analysis of embeddedness and action of individual actors, the focus in this chapter turns towards the analysis of a more specifically geographical, regional forms of embeddedness. More to the point, such collective forms of embeddedness, it is argued, play a crucial role in the process of uneven regional development, as well as in explaining the ability of regions to adapt and to 'hold down' the process of internationalization (Amin and Thrift, 1994b). These regionally-specific, collective forms of embeddedness are referred to interchangeably as local/regional culture or, following Amin and Hausner, as regional/local "institutional set-ups" (1997, p. 14).

The aim of this chapter is twofold. Firstly, to establish a dynamic and non-functional framework for the analysis of regionally-specific institutional and cultural forms. Using the theory of Bourdieu (1977, 1990) and actor-network theory (Latour, 1987; Callon, 1991), this chapter seeks to develop a framework capable of analyzing regional/local forms of embeddedness as an outcome of diverse, contested cultural processes. This chapter pays special attention to the conceptualization of locally-specific practices and meanings which represent an important but often neglected and under-theorized aspect of uneven regional development. It is argued here that a better understanding of these concepts can also bring new insights to the explanation of the diverse ability of regions to adapt and to 'hold down' the process of internationalization in a productive way.

Secondly, this chapter also aims to specify the relationship between the concepts of embeddedness and regional adaptability. It attempts to specify the character of cultural processes which transform the existing forms of embeddedness in a way which may increase the ability of regional institutional set-ups to 'hold down' diverse new

practices and increase the adaptability and competitiveness of whole regional economies.

The chapter begins with a brief summary of an approach towards the issue of uneven development advanced by certain geographers inspired by the network approaches of economic sociology and organizational theory (Asheim, 1992; Harrison, 1992; Cooke and Morgan, 1993; Yeung, 1994). This stream of thinking, although it employs the concept of embeddedness, is criticized here because it provides neither an adequate 'unpacking' of the notion of local culture, nor the necessary clues to differences in the competitiveness of regions. Following that, the chapter develops an alternative framework which, arguably, offers a more plausible conceptualization of cultural differences responsible for the regional unevenness. This framework draws on the arguments developed within the emerging 'socio-economic' stream in geography (Amin and Thrift, 1995, 1997; Storper, 1997; Storper and Salais, 1997).

The subsequent sections briefly summarize the main points of institutional evolutionary economics (Nelson and Winter, 1982; Hodgson, 1988), which served as an important inspiration for the socio-economic approach, and they assess its possible contribution to the analysis of uneven regional development. Significantly, the concept of 'action framework' (Storper, 1997, p. 253) is specified and identified as a possible link between institutional evolutionary theory and the socio-economic analysis of regions. However, two problems related to the application of this concept are identified and are then addressed in two separate sections. These represent the core of an effort to develop a culturally informed understanding of Storper's original concept and its extension to the analysis of regions/localities. Firstly, the issue of the dynamics and the stabilization of action frameworks in time is addressed using the concepts of social capital and symbolic power (Bourdieu, 1977, 1990, 1993b), as well as translation and enrolment (Latour, 1987; Callon, 1991). Secondly, an attempt is made to specify the relationship between the concept of action framework and the contested and plural character of local cultures. Subsequently, the concept of 'institutional set-up' (Amin and Hausner, 1997) is developed which permits a dynamic and non-functional explanation of diverse, locally-specific forms of embeddedness.

The final sections of the chapter deal with the issue of adaptability and the competitiveness of regions. Their aim is to specify the character of regional institutional set-ups that create suitable preconditions for a sustained process of locally-based reflection and adaptation. As such, these sections open the way for an analysis and assessment of regions from the point of their long term adaptability and competitiveness.

LOCAL CULTURE AND UNEVEN REGIONAL DEVELOPMENT

Networks and regional 'embeddedness': an 'oversocialized' view of culture?

Influenced by the 'New Economic Sociologists' (Granovetter, 1985/1992) and some organizational theorists (Powell and Smith-Doerr, 1994), some economic geographers increasingly have incorporated the concepts of networks and embeddedness into their thinking about regional competitiveness. In their work, however, networks were invariably interpreted in a rather narrow sense.¹⁰ They were interpreted specifically as an intermediary form of organization between market and hierarchy which allows for the building of trust (Yeung, 1994; Sayer, 1995; Asheim, 1997) and which represents an essential part of the 'embeddedness' of economic actors.

Much of this writing about networks follows from the literature on post-Fordism (e.g. Asheim, 1992; Cooke and Morgan, 1993; Sayer, 1997) and industrial districts (e.g. Lorenz, 1988; Harrison, 1992; Grotz and Braun, 1993) which supposes that the emerging new organizational forms rely more on network organization than the previous era of Fordism. This mode of thinking implies the existence of a shift or a break in the organization of the socioeconomy (Murdoch, 1995) (such as a shift from Fordist mass production to a networked economy (Cooke and Morgan, 1993) or to a learning economy (Lundvall, 1992; Morgan, 1997)) which will increase the need for the 'embeddedness' of relations of production (Sayer, 1997). Particular socioeconomic or

¹⁰In a sense similar to the concept of 'network as a form of governance' (Powell and Smith-Doerr, 1994) described in the previous chapter.

cultural characteristics are then expected to become prominent because of such a shift. Networks and 'embeddedness' in particular are supposed to be necessary attributes that actors, firms and regional institutional arrangements need to possess in order to remain competitive in the new, emerging environment. These accounts chart firms embedded in trust-based and reciprocal networks as an alternative to Fordist mass production, which itself is described as 'disembedded'.

What these writers share is the need to specify the cultural and institutional forms that are conducive to the competitiveness of regions and can explain their varied ability to adapt to the changing economic environment. Such cultural and institutional forms, in the understanding of these authors, are equated with the existence of networks and what they call 'embeddedness'. However, networks and embeddedness, unlike Granovetter's (1985/1992) original understanding, are regarded as a positive quality in their own right and the 'network paradigm' (Cooke and Morgan, 1993) is suggested as the new organizational principle as well as a strategy for regional development.

While this approach has its strengths, its weakness lies in that little is said about why embeddedness is the key to competitiveness. The approach focuses instead on listing individual qualities of networks, local institutions, practices, organizational forms and arrangements that are supposed to be aspects of the desired state of regional 'embeddedness' and which are also required for the economic success of regions in the future. The lists are often constructed as a series of characteristics typical of two opposed states of 'embeddedness' and 'disembeddedness'. The characteristics that distinguish 'embeddedness' from 'disembeddedness' include qualities such as the high level of interaction among local firms and institutions, a trust-based collaborative atmosphere in the locality (Harrison, 1992; Cooke and Morgan, 1993; Yeung, 1994; Morgan, 1997), the presence of untraded interdependencies and locally-codified knowledge (Asheim and Dunford, 1997), cultural, organizational and spatial proximity (Lundvall, 1993; Malmberg, 1996, 1997) or simply the 'localness' of networks (Dicken *et al.*, 1994).

Subsequently, the construction of and search for the two opposed ideal types - the 'embedded' and 'disembedded' relations, firms, or regional economies - commonly

replace an explanation of the processes that lead to the success or the failure of regions. Unfortunately, such analytical simplicity does not make the reasons for the uneven ability of regions to compete and adapt that much clearer. Overall, it seems that these accounts provide insufficient insight into the processes responsible for the differences in the performance of regions and that they suffer from a contrastive 'explanation' through a series of dualisms (Murdoch, 1995).

Despite such shortcomings these authors still provide some interesting insights to the understanding of uneven regional development. They bring to our attention the complex interactions between 'economic' and 'non-economic' relationships in the process of constructing adaptable and competitive regional economies capable of 'holding down' the process of internationalization. Indeed, it seems to be the 'soft' cultural characteristics identified by these authors which cause the regional differences in the ability to respond and adapt to new challenges (Grabher, 1993c; Sabel, 1993; Locke, 1996).

My reservations towards this approach, however, concern the rather static nature of explanation, whereby little attention is paid to the *processes* through which such characteristics are achieved. 'Embeddedness' is presented as the desired aim by this stream of geographical research. This 'paradigmatic example', however, is regarded simply as an institutional arrangement consisting of a particular 'correct' blend of cultural 'ingredients' (Amin and Graham, 1997, p. 416-7). Such an understanding and explanation of successful regional development then fails to explain how the particular important 'ingredients' of the arrangement were produced or reproduced by actors. Furthermore, the understanding of embeddedness as a desired institutional arrangement also causes terminological confusion: it disregards the fact that all regional economies are embedded in some ways (at least in the sense of the concept of embeddedness as proposed by Polanyi (1944/1957) and later Granovetter (1985/1992) - see previous chapter), be it to their benefit or their disadvantage.

Equally, the approach described above often suffers from a functional understanding of locally-specific cultural contexts. It fails to appreciate that cultural or social characteristics (such as trust or cultural proximity) are subject to contestation

which may give them very different *meanings* in different regional contexts. As such, the same cultural characteristics can also have very different consequences for regional development. This approach thus resembles the functionalism of the oversocialized view of economic action criticized by Granovetter (1985/1992). The characteristics of local institutional settings are somehow present while the fact of their presence is then supposed to guide the actions of individual actors in the locality in ways which lead either to a success or a failure of the regional economy.

I will argue that this 'oversocialized' approach does not provide a satisfactory framework for explaining the diverse adaptability and competitiveness of regions, largely due to an inadequate conceptualization of culture and the cultural processes which transform regional forms of embeddedness. The following section will argue for an alternative approach which shares one feature with the 'oversocialized' approach. It too regards locally-specific cultural forms and forms of embeddedness as central to an explanation of the uneven ability of regions to adapt, to 'hold down' internationalization and to compete. However, the approach advocated here recognizes the dynamism and contested nature of cultural processes and their role in constituting as well as transforming the locally-specific forms of embeddedness.

Socio-economic approach: an alternative explanation of regional unevenness

The alternative approach to an explanation of diverse regional adaptability and competitiveness suggested here is more akin to the arguments of another grouping of authors (Amin and Thrift, 1992, 1994, 1997; Grabher, 1993a, b, c; Sabel, 1993, 1994; Grabher and Stark, 1997a, b; Storper, 1997; Storper and Salais, 1997) who conceive of embeddedness and networks in a regional context more closely along the lines outlined by Granovetter (1985/1992, 1993; Swedberg and Granovetter, 1992). Following Amin and Thrift (1997), I will call this loose grouping of authors and the emerging alternative approach 'socio-economics' (p. 152) or socio-economic approach. The authors mentioned above do not represent any coherent and organized 'school' or project and in fact this approach does not yet seem fully developed. Moreover, these authors often

differ in the terminology they use, although they share certain methodological features and sources of inspiration.¹¹

Apart from the network theory and embeddedness of Mark Granovetter, another common point of reference for the socio-economic approach is evolutionary institutional economics (Amin and Thrift, 1997; Grabher and Stark, 1997a; Storper and Salais, 1997). The approach of socio-economics in geography draws on these two sources and attempts to add a spatial dimension to them. It also draws upon some inspiration from earlier geographical investigations into the reasons for uneven regional development (Massey, 1995) that recognize the need to explain spatial unevenness as a combined outcome of the interactions of economic and social relations in space and the need to interpret them against a background of the localized social relations and spatial structures inherited from the past.

The main difference between the socio-economic stream of literature in geography and the oversocialized accounts of regional embeddedness is that the socio-economic approach attempts to analyze how the desirable cultural characteristics come into being in particular local settings. Unlike the oversocialized view of culture, the socio-economic stance develops a framework capable of analyzing the processes which produced existing forms of embeddedness. Its study of embeddedness is much more explicit in analyzing socioeconomic change as a combination of the historical inertia of the past relations and institutional forms with newly created networked relations.

The socio-economic approach also brings forward the fact recognized by Granovetter (1985/1992) that embeddedness and networks are not only 'good' things, based on cooperative, democratic and trust-based arrangements but, that networks also include power relations (Amin and Thrift, 1995; Murdoch, 1995). Some regions, for example, can be embedded in a set of relations that bring them to a powerless and subordinate position (Massey, 1995), or the relations can be unstable, ridden with suspicion and inner conflicts which might prevent regions from being competitive and responsive to change (Sabel, 1993). The success and competitiveness of regions

¹¹ Although they do not all use the term 'embeddedness' they all share the view of networks both as a set of relations and as positions of actors in the wider structure of networks. This is an understanding very similar to networks and embeddedness of Mark Granovetter - see Chapter One.

subsequently does not depend on whether firms or actors are 'embedded' in networks or not, but on *how* actors are embedded in their networks. It depends on how the networks are structured and what properties they include (Grabher and Stark, 1997b) as well as on the character of locally-specific processes of institutionalization through which the forms of embeddedness were created (Amin and Thrift, 1994a). All of this means that in order to explain the differences in local/regional cultures, their adaptability and competitiveness, the analysis has to involve a time dimension. And in this the socio-economic approach does indeed overcome the static understanding of culture presented by the oversocialized approach. In a sense it has the same virtues as the notion of embeddedness presented by Mark Granovetter (1985/1992, 1993): it also avoids functionalism as well as brings dynamism and a historical dimension to the explanation of diverse adaptability and competitiveness of regions.

The following sections of this chapter aim to build on the positive features of the emerging socio-economic approach in geography. They attempt to develop this approach further and to some extent synthesize the work and concepts of its individual authors into a framework for explaining the differential ability of regions to adapt.

THE SOCIO-ECONOMIC APPROACH: TOWARDS A FRAMEWORK FOR ANALYZING REGIONAL ADAPTABILITY

Inspiration from evolutionary institutional economics

The attention to the dynamism and to the historical development of existing forms of embeddedness are strong features of the socio-economic approach in geography. This is perhaps not that surprising given the fact that one of the main sources of inspiration for socio-economics is evolutionary institutional economics (Nelson and Winter, 1982; Hodgson, 1988, 1993). One of the main achievements of this stream in economics was to bring a temporal dimension to economic analysis.

Evolutionary institutional economics (i.e. evolutionary economics following the tradition of old institutionalism, Hodgson, 1994) represents a critical reaction to the

'static', neoclassical description of economic 'reality'. Instead, it lays stress on the evolution of institutional forms and advocates an approach that recognizes the importance of culture, power and their co-evolution with economic processes and phenomena (Samuels, 1995). A particular stress is put on the concept of *routines* (Nelson and Winter, 1982; Hodgson, 1988) which represent a form of "durable repositories of knowledge" (Hodgson, 1998, p. 44) or an "organizational memory of firms" (Nelson and Winter, 1982, p. 99). Routines are mutable and perform a function in a way similar to genes in the biological realm: they preserve knowledge in relation to skills, competencies and capabilities and "act through time as their transmission belt" (Hodgson, 1997, p. 4). Routines are then strongly influenced by existing institutions and embody past institutional forms (Hodgson, 1988, 1993; Nelson, 1994). They are created and stabilized in time in the process of change and the historical unfolding of social relations.¹²

The key concepts through which the evolutionary institutional arguments develop a temporal economic analysis are mutation and selection (Simonetti, 1998). In the same way as genes in biology, so too the routines in the process of evolution are winnowed by selection. Selection is responsible for their constant change, mutation and evolution. The change "occurs through a somewhat blind mutation, and somewhat systematic selection" (Nelson, 1994, p. 133) each of which can be both random or purposive (Hodgson, 1998, p. 45).

Routines of individuals and firms develop in specific ways over time and have more or less positive consequences for the economic performance of actors. But the mutation of routines, as in the case of regional economies (Massey, 1995), is already restricted by an existing system of routines (or economic environment) and by its evolutionary trajectory (Dosi and Orsenigo, 1988; Hodgson, 1997).¹³ The

¹²The mechanism by which routines are transmitted and spread, however, differs radically in several respects from the one of genes. Routines are much more mutable, can be acquired through socialization in a much shorter time span than genes and they can be both learned and unlearned (Nelson and Winter, 1982; Hodgson, 1988, 1997, 1998; Barnes, 1997).

¹³The restriction by existing system of routines, however, does not mean that the previous routines *determine* the development of the 'next' routine or exactly specify the behaviour of individuals. The action of individuals is not guided by their own system of routines in some deterministic way. There is always an element of uncertainty in human behaviour because routines can, to some extent at least, be purposively

institutionalization of routines over time eventually results in the creation of an institutional setting or framework which safeguards a certain degree of continuity and stability of behaviour.

The idea of a stabilized set of routines has been picked up and applied to geographical analysis by Storper (1997), who refers to this stabilized institutional framework specific to individual actors as an 'action framework' (p. 253). An *action framework* represents an ensemble of relational assets such as routines, conventions and competencies "by which actors come to coordinate with each other [according to] the specific evolutionary trajectory of the actors involved" (Storper, 1997, p. 253). Action frameworks are specific to individual actors, but because they consist of *collective*, relational assets which may be reproduced independently of individual actors, they are also specific to localities and regions (Storper, 1997; Storper and Salais, 1997).

In a similar way to routines, the institutionalization of an action framework is shaped and gradually transformed by selection and mutation. The temporary stabilization or institutionalization of an action framework moulds the actions of individuals. It sets the standard for what type of action is viable in the present conditions and, as such, it creates preconditions for actions which have either virtuous or negative consequences for the adaptability of regions.

From the perspective of an analysis of diverse regional adaptability, the most important contribution of evolutionary institutional economics is the recognition of a temporary stabilization of institutional forms and the semi-permanence of these forms in particular time-space contexts (Nelson, 1994). The concept of action framework, then, is an expression of the effort by certain geographers to turn this insight into a basis for a new way of thinking about locally-specific forms of embeddedness and about the reasons for the diverse ability of regions to adapt and compete. In many ways this concept is quite successful as it shares the two major advantages of evolutionary institutional economics. First, it allows for the dynamism associated with mutation and selection, while it also acknowledges the temporal stabilization of institutional forms in

shaped by actors' actions. This fact makes any system of routines only probabilistic and subject to the processes of mutation and selection (Hodgson, 1988; Nelson, 1994; Storper and Salais, 1997).

space. Second, the concept of action framework also acknowledges the collective character of regional institutional arrangements (Storper, 1997). These are regarded as expressions of locally-specific processes of institutionalization that embody the history of a particular locality and local actors (Amin and Thrift, 1997; Barnes, 1997; Storper, 1997).

The concept of action framework thus remedies to some extent the major problems of the oversocialized approach in geography. It provides an opportunity to study locally-specific forms of embeddedness in a dynamic way; that is, from the point of view of their institutionalization. In this sense the concept of action framework provides a useful tool for the analysis of 'regional cultures' and could provide a basis for a processual and non-functional socio-economic approach towards an explanation of the uneven ability of regions to adapt and adjust to change.

However, an explanatory framework based on the concept of action framework alone does not provide sufficient means for an analysis of regionally-specific forms of embeddedness. There seem to be at least two problems related to its application as the basis and key tool for the socio-economic approach.

The first problem is more general and is related to the dynamics and stabilization of cultural and institutional forms over time. Institutional and evolutionary economics tell us that stability is only temporary due to the processes of selection and mutation (Nelson and Winter, 1982; Nelson, 1994). It is, however, precisely the specification of 'how selection selects', and the ability of economic research to explain "what made a mutation fit, and what doomed it to extinction" (Nelson, 1994, p. 133) that puzzles most evolutionary economists (Barnes, 1997). A conceptualization of the processes that actually select and *stabilize* particular routines and conventions and make them partly durable in time still seems inadequately developed in the theory of evolutionary institutional economics (Nelson, 1994). The same is also true for the concept of action framework.

The second problem is related more specifically to the analysis of institutional and cultural formations in individual regions. It has to do with the fact that regions are spaces of multiple and competing sets of routines, conventions and institutional forms

that co-exist and operate simultaneously (Amin and Thrift, 1992, 1994a; Grabher and Stark, 1997a, b; Storper, 1997; Storper and Salais, 1995; Amin, 1998). The challenge for the socio-economic approach, then, is to develop a framework for explaining the diverse adaptability of regions as entities that represent collective assets consisting of a *multiplicity* of routines, conventions and institutions. In other words, localities often consist of multiple action frameworks of routines, conventions and practices characterized by different forms of co-existence. If this should be the case, how can we employ the concept of action framework in the analysis of locally-specific cultural and institutional forms in individual regions?

These issues are addressed in the next two sections. In this way, the two problems associated with the application of the concept of action framework to regional analysis will help us to develop and specify an explanatory framework for the socio-economic approach.

The dynamics and stabilization of action frameworks: contestation of meanings, translation and symbolic power

It has been explained that the evolutionary institutional approach, as well as Storper's concept of action framework, stress the dynamism and temporal stabilization of institutional forms. The present section seeks to remedy their common weakness, that is, their failure to specify and explore fully the character of the processes that select, stabilize and institutionalize particular routines, competencies and practices over time. However, in order to understand the process by which routines or action frameworks are stabilized, we first need to understand what actually transforms them. According to evolutionary institutional theory, the process that makes the mutation of routines possible is the "interaction between firms" (Simonetti, 1998, p. 334). In more general terms, it is the contact with the surrounding environment mediated by personal networks among actors that secures an influx of new impulses which might lead to a mutation of routines. The transformation of action frameworks, then, is a product of a process in which the knowledge embodied in routines and practices of individuals is continuously challenged by the experience of such a network interaction. Put simply, networks bring

new impulses for a reflection and for a reinterpretation of routines (Salais and Storper, 1997). Through the networked interaction between individuals, different routines and cultural practices can be spread, mixed up with others, and thus altered.

The process by which networked interactions transform the existing action framework of routines, however, is not a straightforward one since the influx of new impulses does not lead to an automatic change of existing routines. This is because the transformation of routines and cultural practices depends on the reevaluation of the existing routines by actors themselves which, in turn, is open to different and often conflicting interpretations (Hall, 1995). So instead of a straightforward change of routines, the networking activity results in a process of *contestation* over the meaning and interpretation of aspects of reality which may or may not transform the existing action framework of an actor. The process of contestation over meaning ultimately represents the cause as well as the process that reshapes the routines and practices of actors.

The central role of contestation and interpretation of meanings in the mutation of routines has been partly recognized by some evolutionary economists too (Allen, 1988; Dosi and Orsenigo, 1988; David, 1993). What they leave largely unanswered, however, is the question why particular routines or conventions stabilize over time without being challenged and replaced by more recent network interaction?

Following Bourdieu (1977, 1990), whose theory was developed in the previous chapter, I want to argue that the cultural processes of approbation, approval and recognition by the collectivity of other actors are crucial to the stabilization of action frameworks.¹⁴ The temporal stabilization of action frameworks and the reproduction of their practices and routines in time is only possible because of a shared, *collective recognition* of an action by other actors. This, in turn, is connected with the exercise of

¹⁴Some evolutionary economists (e.g. David, 1985, 1993, or Dosi and Orsenigo, 1988) do acknowledge that the selection and stabilization of particular institutional arrangements depends on the collective processes of approbation and acceptance of routines by others. They stress that such acceptance can be either purposive (such as an attempt to be compatible with others in the case of adjusting to technological development) or unreflective (as with the unreflective acceptance of a dominant routine) (David, 1985, 1993). However, neither David, nor any other evolutionary economist, seem to provide a more general framework for explaining the stabilization of institutional and cultural forms over time (Nelson, 1994; Barnes, 1997). Instead, many evolutionary economists resort to a somewhat mechanistic concept of path-dependency and increasing returns (Arthur, 1989; David, 1993).

symbolic power and results in the production of shared meanings. As in the previous chapter in relation to the concept of practice, so equally here, the concepts of social and symbolic capital, symbolic power (Bourdieu, 1977, 1990) as well as translation and enrolment (Latour, 1987; Callon, 1991) appear to provide a fruitful way for specifying the relationship between the production of meanings, collective recognition and the temporal stabilization of action frameworks.

The fact of collective recognition gives individual actors the symbolic power to make their actions an accepted and legitimate standard of behaviour. Such action may be later reproduced by others and turned into a collective practice or a shared routine which further confirms the symbolic power of those who are recognized (Bourdieu, 1977, 1990, 1993b). The exercise of symbolic power thus allows for both the reproduction and the stabilization of practices and routines. However, in order to achieve such a symbolic power of recognition and to stabilize routines over time, actors need to make others accept and recognize a particular meaning or interpretation of specific routines. This happens through the processes of *translation* and *enrolment* (Latour, 1987; Callon, 1991).

To give an example of the processes through which actors stabilize actions into routines and practices, we can think of, say, a practice of order sharing among several small firms in one area. If one owner of a small firm decides to make a move towards establishing such a practice, there are in principle two possible responses from other firms: either their owners accept such a behaviour and reciprocate in a similar way next time, or they take advantage of such a behaviour but do not behave in such a way themselves and do not reproduce the action.

In the first case, this action becomes accepted and recognized by others as legitimate and subsequently stabilized as a form of practice by the actions of those who reproduce it. For this to happen, however, other firm owners have to accept a particular meaning of the original action. They need to be enrolled into and persuaded about its particular positive meaning and regard such action as beneficial to themselves. That is, they need to interpret the original action as a well intentioned one and understand it in a way which makes it logical for them to reproduce it (Latour, 1987; Murdoch, 1995).

The collective reproduction of the new practice of order sharing thus leads to its stabilization over time. The actor who initiates such a practice has a wide range of options of how to translate the meaning of his/her action and enrol others in its interpretation - through personal recommendations, persuasion, friendly gestures, pointing out mutual advantage and so on.

Alternatively, actors might accept the offer for order sharing but without reproducing it. They can, of course, even refuse to get involved. In either case this means that they do not accept or recognize this action as legitimate, that they are not enrolled in its positive interpretation. For some reason they give this action a different meaning and, as a consequence, they prevent it from becoming a practice that is collectively reproduced and stabilized over time.

The stabilization of practices and routines in the form of an action framework thus depends on the collective recognition of actors and on the processes of translation and enrolment. Actors can take an active part in producing the meaning of an action, use their networks to enrol others in its particular interpretation and effectively transform, as well as stabilize, routines within the action framework of others. A successful process of cultural translation and enrolment thus effectively allows actors to transform their networked social capital into the symbolic power of collective recognition (Bourdieu, 1977, 1993b; Latour, 1987; Pels, 1997). It allows them to become recognized *mediators* who orchestrate recognition (Callon, 1991, 1998) and control the meaning of actions and practices. A successful translation of meanings by mediators and the enrolment of others in the reproduction of such meanings thus represent the actual process through which individual action frameworks are stabilized over time.

The concept of action framework in this culturally informed understanding has a further feature which is of crucial importance for an explanation of the diverse adaptability of regions. The history of successful past translations and enrolment which helped to stabilize the present action framework of actors also created a specific form of logic (Amin and Hausner, 1997) or rationality with a degree of irreversibility (Latour, 1987; Callon, 1991). Depending on the process of their institutionalization (Amin and Thrift, 1994a, 1997; Barnes, 1997; Amin, 1998), such locally-specific forms of

rationality give particular significance and recognition to certain practices within individual action frameworks as well as in specific spatio-temporal contexts.

Thus an explanation of the diverse ability of regions to adapt cannot be reduced to an action framework understood as a set of 'untraded interdependencies', relations, conventions and routines (Storper, 1997; Storper and Salais, 1997) simply added together. The concept of action framework needs also to take into account the cultural processes of translation, enrolment, and symbolic recognition that give such routines their particular meaning and create unique and partly irreversible forms of rationality.

Hence, the understanding of the concept of action framework as it is presented here is more complicated and fluid than the one suggested by Storper (1997), but it does form a viable basis for the socio-economic approach in geography. The concept of action framework as developed here includes the insights of the dynamic and temporal analysis advocated by evolutionary economics combined with the analysis of power based on Bourdieu's work and on actor-network theory. Such a 'wider', culturally informed, understanding of action framework enables the research to explore the specific character of cultural processes of enrolment, translation and recognition which creates an existing action framework and thus explains its unique form of logic or rationality. Such forms of rationality can, in turn, form the basis for explaining the diverse preconditions for the competitiveness and adaptability of actors as well as regions.

This approach towards explaining the diverse adaptability of regions based on the concept of action framework, as developed so far, remedies the major shortcoming of evolutionary economics. By introducing the concepts of social and symbolic capital, recognition, translation and enrolment it provides a framework for explaining the processes that stabilize routines and practices into locally-specific action frameworks. It builds in the cultural contestation of meaning and thus avoids any oversocialized, functional explanation of the diverse economic performance of actors or regions. However, in order to make the concept of action framework suited to the analysis of a region's adaptability there is one more problem that needs to be tackled. This problem is

related to the fact that regions commonly consist of *multiple* action frameworks of practices, meanings and understandings and is addressed in the following section.

From action frameworks to regional institutional set-ups

In every region, at any one time, a large number of actors are involved simultaneously in the processes of translation, enrolment and production of meaning which often contradict one another. Every region, as a consequence, represents a site with multiple action frameworks; a plural entity characterized by numerous systems of practices and meanings with different forms of rationality and with varied degrees of stability. The problem which this section tackles is the conceptualization of regions in a way which is able to grasp their plural character and the contested nature of processes that constitute them. Such a concept, arguably, has to be an essential part of the socio-economic approach and its framework for explaining the differentiated adaptability and varied success of regions in 'holding down' the process of internationalization.

Most geographers close to the socio-economic approach have recognized that regions/localities represent a specific conjuncture of multiple cultural and institutional forms (Amin and Thrift, 1997; Storper and Salais, 1997). It has been argued that places

"do not have pre-given identities, but are 'constructed out of the juxtaposition, the intersection, the articulation, of multiple social relations', and should be seen as 'shared spaces', 'riven with internal tensions and conflicts'" (Massey, 1991, p. 18-19; quoted in Amin and Thrift, 1994b, p. 9).

Localities are thus rarely identified with one single action framework. Instead, they are more commonly spaces inhabited by numerous individuals or groups of individuals whose action frameworks are perhaps not even based on very similar systems of meaning.

The regional culture or 'regional embeddedness' can be described more appropriately as an outcome of the simultaneous operation of numerous processes of translation, enrolment, signification and recognition that produce a number of diverse action frameworks. Local actors - through the series of interactions between their networked social capital and the symbolic power of recognition (Bourdieu, 1977) - simultaneously produce and reproduce a large number of diverse practices and meanings. These are stabilized through the processes of enrolment and translation

(Latour, 1987; Callon, 1991) into action frameworks but with different degrees of success and local 'reach'¹⁵. This means that certain local action frameworks may involve practices and meanings which are recognized and shared by a greater number of actors than others. Some actors thus might recognize as legitimate only those practices which are recognized and accepted by some non-local authority (such as a multinational company or national government) to which they are connected through their networks. At the same time, however, such practices may be regarded by the majority of local actors as unacceptable and contradicting the practice which the majority of actors recognize as legitimate. This may be the case because some practices have a limited 'reach' within the locality; either because the processes of translation and enrolment were unsuccessful or has involved only a limited number of local actors.

In other words, the fact of the spatial proximity of actors within one locality in no way guarantees that they share and recognize the same system of meaning, or indeed that they share the same culture. Moreover, regions are not closed and autonomous units; they can only be understood by taking into consideration the sets of relations and networks that connect local actors with other actors in other places (Massey, 1995; Meegan 1995; Allen *et al.*, 1998). Regions and localities therefore seem to be mostly sites of co-presence of heterogeneous cultural and institutional forms (Amin and Thrift, 1994a; Massey, 1995; Allen *et al.*, 1998).

Different systems of meaning and practices, however, are not simply co-present within regions. They also 'come together' and co-exist in space in specific ways while the "simultaneous presence of multiple logics [...] yields complex ecologies of meaning" (Grabher and Stark, 1997b, p. 535). An understanding of regions as 'ecologies' implies that there is always an important degree of mutual dependence, interaction and overlap between actors in space even if their action frameworks are quite different (Amin and Thrift, 1994a; Amin and Hausner, 1997; Storper and Salais, 1997). Regions are thus characterized not simply by juxtapositions of diverse action frameworks, but also by

¹⁵By local 'reach' of individual meanings or practices I mean how many actors are successfully enrolled and translated, how strongly they adhere to the one, specific interpretation of reality, and, as a consequence of this, how stable are their action frameworks. Such reach reflects the structure and quality of the social and symbolic capital that different mediators mobilize and use during the processes of translation and enrolment.

unique sets of relations between them, by different forms of interdependence, co-existence and degrees of coordination that have developed between local action frameworks over time.

The interactions and interdependence among different action frameworks in space produce what Amin and Hausner term '*institutional set-ups*' (1997, p. 14). The concept of institutional set-up, I believe, is sufficiently broad as well as concrete to describe and analyze the adaptability of the ecologies of meanings that regions represent. The concept of regional institutional set-up is more specific than the rather vague and general notion of 'regional culture', while it also represents more than a sum of the action frameworks present in a locality. An institutional set-up also involves the relations and networks by which the action frameworks of different local actors are connected, 'held together' and integrated between themselves, and which produce unique rationalities, logics of governance and coherence. The locally-specific forms of rationality produced by the coordination of local institutional set-ups are important because they can have a crucial - positive or negative - impact on the adaptability of a whole region.

The adaptability of regions and their ability to 'hold down' the process of internationalization is therefore dependent on the character of two important aspects that characterize any institutional set-up. First, on the variety of action frameworks present in the locality and their individual rationalities. And second, on the character of networked relations between diverse local action frameworks; that is, by the form of their coordination within a unique collective logic and rationality. Both the varieties of action framework *and* the form of their coordination together constitute locally-specific cultural and institutional forms that need to be analyzed in order to explain and assess the diverse adaptive capacities of regions. So how should such an analysis and assessment be accomplished?

It has been suggested in the previous sections that the adaptive capacity of individual actors can be explained by analyzing their action frameworks with specific forms of rationality since these to a large extent shape the actions of actors. This analysis should be done in a processual and non-functional way, that is, by analyzing the

interactions between the networked social capital of actors and their symbolic power (Bourdieu, 1977, 1990) which, in turn, may lead to successful processes of enrolment and translation (Latour, 1987; Callon, 1991), stabilize the meanings of actions and turn them into collectively reproduced practices. The analysis of cultural processes of translation and enrolment should therefore play a crucial role in an explanation of the stabilization and transformation of individual local action frameworks and serve as a basis for an assessment of the differentiated adaptability of actors.

The adaptability of individual actors and their action frameworks, however, represents only one important aspect of regional adaptability. The adaptability of regional economies also depends on the cultural processes through which local mediators can 'hold together' different action frameworks and constitute specific forms of coordination between them. Moreover, these processes of translation, enrolment and production of meaning need to be analyzed in order to explain and assess the character of regional institutional set-ups and their differentiated adaptability.

These claims, however, raise further questions related to the character of adaptable institutional set-ups. What kind of cultural processes make action frameworks adaptable? And what form of their integration increases the ability of whole regions to accommodate and adapt to novelties? What can we say about the character of processes that increase the capacity of regional institutional set-ups "to *evolve* in order to compete" (Amin and Hausner, 1997, p. 28; original emphasis)? In the rest of this chapter an attempt is made to answer these questions and to specify under what circumstances the diversity of meanings, practices and networks articulates into a successful and adaptable institutional set-up.

ADAPTABILITY AND THE COMPETITIVENESS OF REGIONS

Two dimensions of regional adaptability

The ability of regions to constantly accommodate and adapt to alternative meanings and practices and to learn from this process has been identified by several researchers as

critical to the economic success of regions (Grabher, 1993b, c; Amin and Thrift, 1994a, 1995, 1997; Gertler, 1997; Grabher and Stark, 1997b; Morgan, 1997; Storper and Salais, 1997; Amin, 1998). Most localities are constantly confronted with new meanings and new practices which challenge and might transform the existing action frameworks of local actors as well as the whole local institutional set-ups. Only some regions, however, are able to 'hold down' such challenges in a productive way. Such adaptable regions are capable of using alternative interpretations as a basis for collective reflection and reinterpretation of an existing system of conventions, practices and meanings (Storper, 1995, 1997). They can turn them into a source of a sustained reinterpretation and a continuous process of adaptation (Grabher, 1993b, c).

More to the point, regions which have 'learnt' to use alternative practices as a basis for reflection and for a collective reinterpretation of actors' action frameworks also seem to be more likely to create innovative forms of action and independent, locally-based sources of competitiveness (Sabel, 1993; Storper and Salais, 1997; Grabher and Stark, 1997b; Amin, 1998). These abilities are also at the centre of the region's success in 'holding down' the process of internationalization and in gaining maximum benefits from an integration into the global economic processes (Amin and Thrift, 1994b). The critical question then is how can regions achieve an institutional set-up which is conducive to a continuous reinterpretation and adaptation that could also increase their competitiveness?

The first half of this chapter argued that an explanation of the varied regional adaptability requires one to analyze simultaneously the cultural processes of mediation, translation, enrolment and production of meaning along two dimensions. The first involves analyzing the action frameworks of individual local actors and their capacity to accommodate alternative meanings and practices. The second involves analyzing the coordination of regional institutional set-up and the character of processes through which a collectivity of diverse local actors is enrolled in the accommodation of new impulses. Both these dimensions of regional adaptability are important and both need to be understood in order to provide an appropriate explanation as well as an assessment of the differentiated ability of regions to adapt and to 'hold down' novel practices. The two

subsequent sections address, in turn, these two dimensions of regional adaptability and try to specify the character of cultural processes that are likely to increase the adaptability of regional institutional set-ups.

The adaptability of action frameworks: the character of a 'perfect translation'

The successful accommodation of a new, alternative practice into an actor's action framework depends on the character of the processes of translation and enrolment. If a new impulse (alternative practice or meaning) is to be successfully accommodated by an individual, it needs to be translated and reinterpreted in a way that is compatible with the actor's action framework. It needs to be made intelligible to the actor and it needs to reconcile and align his/her views, interests and attitudes with views and interests of other actors associated with the alternative interpretation (Latour, 1987; Callon, 1991; Murdoch, 1995). The success or failure in accommodating a new impulse into an action framework of actors reflects the ability of mediators to enrol others (Callon, 1991, 1998), that is, to make them accept a particular vision of the world, align their interests and agree on the appropriateness of certain practices and meanings.

A '*perfect translation*', as defined by Callon (1991, p. 145), leads to just such an alignment of interests and it makes actors agree on the interpretation of different meanings and practices. This process, as a by-product, mutually adjusts the roles and understandings of all actors who are enrolled in the translation (Callon, 1991; Murdoch, 1995). In other words, a perfect translation is a process which allows actors to accommodate and internalize alternative interpretations as well as adjust their action frameworks to incorporate them. The activity of mediators adjusts the interpretation of a new practice in a way which enables actors to internalize it and to integrate it within a system of meaning which they recognize (Callon, 1991, 1998).

However, the 'perfection' of the processes of enrolment and translation does not imply that "everyone does the same thing [but rather that] the activities of actors [who were enrolled] fit together despite their heterogeneity" (Callon, 1991, p. 148). The enrolment of actors in a particular translation does not necessarily mean that the diverse meanings and practices which they recognize as legitimate have to merge or become the

same. Instead, a perfect translation implies that the actors enrolled are willing to communicate with each other, that they can negotiate their differences with one another, and thus achieve a mutual adjustment of their original action frameworks (Callon, 1991; Amin and Thrift, 1995; Murdoch, 1995; Amin and Hausner, 1997). This process enables actors to perceive their own system of meanings and practices as compatible with those of others and thus opens the way for innovative forms of action (Sabel, 1993).

The precondition for a perfect translation is a degree of collective recognition enjoyed by the mediators who are translating and enrolling others. It is the symbolic power of recognition (Bourdieu, 1977, 1990) exercised by mediators which makes their translations able to create a "consensus on the meaning of the social world" (Bourdieu, 1991, p. 166). The collective recognition of mediated and translated meanings generates a shared space, an equivalence among diverse actors who are enrolled (Callon, 1991, p. 145) which is demonstrated by a degree of mutual *trust* among actors. It is trust in a generalized form¹⁶ (Sabel, 1993; Misztal, 1996; Shapin, 1998); a form of trust which is an expression of "shared expectations [...] and confidence that the expectations are and will continue to be shared" (Sabel, 1993, p. 110). The enrolment in a perfect translation thus allows actors to trust in the stability of a particular shared interpretation and in the ability of others to communicate, decode and interpret meanings in particular ways. Moreover, the trust characteristic of a perfect translation smoothes the interaction among heterogeneous actors and facilitates the mobilization of networks between them (Callon, 1991).

Importantly, the degrees of trust and the 'perfection' of a translation provided by mediators directly influences the ability of individuals to accommodate and internalize new meanings and practices. The fact that a perfect translation ensures that actors with

¹⁶It is stressed that we talk here about the notion of trust as a *generalized* social construct to contrast it with the understanding of trust in the oversocialized understanding of embeddedness or with the approach of NES criticized in the previous chapter. Both these approaches have a tendency to regard trust only as a characteristic of mutual relations between interacting individuals. Here, in contrast, trust is regarded as a collective aspect of an exercise of symbolic power, i.e. a trust in what is recognized by a collectivity of actors. This form of trust can only be understood by studying the interactions of social and symbolic capital and the processes of translation and enrolment which create such a collective recognition. This notion of trust, I believe, is also different from the functional understanding of trust which acts as the means of reducing uncertainty (Luhmann, 1979), or from a purely self-interested construction of cooperative, trust-based relations suggested by game theory and rational choice models (Gambetta, 1988; for a critique see Misztal, 1996).

diverse action frameworks are compatible and that it facilitates communication between them represents the key towards an understanding of actors' adaptability. This kind of translation results in the commensurability and alignment of different action frameworks (but not in their merging or homogenization) (Callon, 1991) and thus represents the actual process which enables actors to respond and adapt to new impulses. Moreover, the trust and mutual adjustment involved in the process of perfect translation increase the chances that actors will be able to draw on each other's interpretation and thus reinterpret the meaning of their existing practices. Such a process of reinterpretation may, in turn, create new interpretative possibilities for actors, create scope for innovative forms of action and therefore increase their potential for competitiveness (Sabel, 1993, 1994; Storper and Salais, 1997).

The adaptability of regions thus depends on the ability of local actors to adjust their action frameworks to alternative interpretations through the continued process of a perfect translation. However, the adaptability of regions as plural and collective entities also involves the coordination and integration of diverse action frameworks that co-exist in space. It is to this that we now turn and look at the specific character of cultural processes which can align and 'hold together' the diversity of action frameworks in a way that increases the adaptability of whole regions.

The adaptability of regions: the coordination of institutional set-ups

Although the adaptability of individual actors is very important for the overall adaptive capacity of regions, it cannot be reduced to a sum of individual 'adaptabilities'. The major difference between the adaptability of regions and that of individual actors is that regions may accommodate a new, alternative impulse into its ecology of meanings, and yet, this fact does not necessarily turn the new impulse into a source of collective, locally-based reinterpretation, innovation and learning. The institutional set-ups of regions represent a multiplicity of action frameworks that co-exist in space and the overall adaptability of regions is therefore influenced also by the effects that the processes of accommodation and adaptation have on the action frameworks of other actors and on the constitution of the local institutional set-up.

The adaptability of one local actor thus may or may not lead to the adaptability of the whole region. Whether it does or does not depends on the concrete character of the processes of translation and enrolment involved in accommodating a new practice and on their 'reach' within the locality. In some cases the accommodation of a new impulse by one local actor may result in a collective reinterpretation of practices and learning among other, heterogeneous local actors. In other cases, however, such accommodation and adaptation may also be restricted to the action framework of one local actor alone. In both of these cases the result will be a successful adaptation of actors which may perhaps make the whole region look adaptable too. Each of the cases, however, will have different consequences for the ability of the region to 'hold down' alternative meanings in a way that secures a sustained process of reinterpretation and long term adaptability. In other words, the *character* of adaptability in the two regions may be quite different.

On the one hand, some regions might appear adaptable because a small number of local actors are (through their personal networks) well connected to sources of alternative meanings and practices outside their locality (e.g. a multinational company). These actors might be enrolled in a perfect translation of alternative practices and thus show signs of adaptation despite the fact that the majority of local actors are not included in the adaptation process at all. The limited 'reach' of such a perfect translation would thus lead to a *fragmented* institutional set-up whereby local actors exist in mutual exclusion and are unable or unwilling to communicate with each other.

Some actors within the region might still prove to be responsive to new impulses and their adaptation may even produce innovative practices. Their adaptability, however, would be dependent on the external ties, while the creative and innovative potential of local actors would not be utilized. The limited collective reinterpretation and adjustment of actors within the locality would be unlikely to trigger a sustained process of adaptation nurtured from the resources of local institutional variety. The disadvantage of such an institutional arrangement is that the isolation between the action frameworks of local actors would prevent the process of accommodation from stimulating a collective reflection and reinterpretation among local actors, as well as

restrict the potential for locally-based innovation (Sabel, 1993). Rather than adaptable, the institutional set-up of such a region can be more appropriately described as 'adaptive' (Grabher, 1993c, 1997), that is, capable of adjustment but not characterized by an autonomous reflexivity or an independent capacity to 'learn to adapt' (Grabher, 1993b, c; Amin and Hausner, 1997; Amin, 1998).

In other regions, on the other hand, the accommodation of the same new practice or meaning by one local actor might lead to a reassessment and reinterpretation of the action frameworks of other local actors too. The process of perfect translation would then have a substantial local 'reach'. The process of adaptation, as a consequence, can 'bring together' diverse action frameworks of local actors and smooth the interaction among them. Eventually, this process may result in an *integrated* institutional set-up which allows local actors to align their diverse interests and form a basis for a shared system of meaning and for collective trust.

The coordination of an integrated institutional set-up is based on a common interest and a system of shared meanings which enable local actors with diverse action frameworks to draw on a collective 'pool' of networks, routines, practices and skills. The greater the number of heterogeneous local actors enrolled and translated, the greater is this common 'pool' and the greater are the chances that the local institutional variety will stimulate an innovative form of response from one or several local actors. Moreover, due to the close integration of a local set-up, any innovative local response can be accommodated also by other local actors and lead to a further reinterpretation within the locality. The process of perfect translation which enrolls a large number of diverse local actors is thus more likely to create new interpretative possibilities that are independent of external networks and to secure a continuous process of autonomous reflection and localized learning. The integrated institutional set-up thus seems crucial for the long term adaptability of regions, for the capacity of regions to sustain the process of collective reinterpretation and to "become, or remain, *self-regenerating growth poles* in the global economy" (Amin and Thrift, 1997, p. 147; original emphasis).

The fragmented and integrated institutional set-ups are, of course, just simple 'model' examples. The reality is bound to be more complex and neither a complete

fragmentation, nor a complete integration of all actors within any locality is likely to be the case. However, these 'model' examples demonstrate that an explanation of region's long term adaptability and its ability to 'hold down' the process of internationalization cannot be achieved simply by exploring the ability of individual local actors to accommodate novelties. It also needs to consist of an analysis focused on the process through which local actors - with different degrees of success - become what Callon (1991, 1998) calls 'mediators'. In this process local actors transform their networked social capital into a symbolic power of recognition (Bourdieu, 1977) by enrolling others and translating the meanings for them (Latour, 1987; Callon, 1991). Depending on the character of translation and enrolment produced by local mediators, the process of accommodating a novel practice can have a diverse local 'reach' and thus increase either the integration or the fragmentation of an institutional set-up.

The regional adaptability thus has two aspects: the adaptability of the action frameworks of local actors and the form of integration associated with the local institutional set-up. The cultural processes which transform each of these aspects need to be analyzed simultaneously in order to explain the different ability of regions to 'hold down' new impulses.¹⁷ Furthermore, the argument developed thus far suggests that the ability of local mediators to sustain perfect translations and give them considerable local 'reach' will increase regional adaptability as well as stimulate the potential for locally-based innovation and competitiveness. The following, final section of this chapter will examine the validity of such normative claims and will also outline the limitations of the socio-economic approach in predicting the long term adaptability of regional economies.

Regional adaptability and competitiveness: the limitations of the socio-economic approach

¹⁷The empirical chapters (see Chapter Six, Seven and Eight) will further explore and substantiate this argument in relation to the process of internationalization in the Czech Republic. These chapters will also demonstrate that the distinction between adaptability and 'adaptiveness' would not be possible without analyzing simultaneously the adaptability of individual actors' action frameworks as well as the form of coordination of local institutional set-up.

The foregoing discussion suggested that the sustained process of perfect translation combined with an integrated regional institutional set-up creates conditions conducive to a continuous, locally-based process of collective reinterpretation, learning and competitiveness. This normative argument, however, requires a further elaboration and qualification in order to prevent any oversimplified conclusion. This elaboration requires an important distinction between the adaptability and competitiveness of regions.

The adaptability of regions, their capacity to accommodate new impulses and turn them into a basis for collective reflection and learning can only be established in relation to the impulses that confront the region. In other words, the adaptability of a region is relative to the diverse networks, practices and meanings which enter the region and thus may be potentially accommodated within the action frameworks of local actors.

The competitiveness of regions, on the other hand, is related to the practices and meanings produced by the large number of actors who operate in different parts of the globalized socioeconomic system. Their activities continuously create new meanings and novel interpretations of practices which might potentially become a new source of competitiveness. Inevitably, many of these activities only take place in some regions while other regions might never confront them. As a consequence, some localities may be simply *bypassed* by alternative interpretations; they may miss entirely particular new practices or meanings that could become crucial for their competitiveness in the future.

In concrete terms, some regions might be able to accommodate novelties and use them as a basis for collective reinterpretation and learning. Such regions might be adaptable and create preconditions for a locally-based, autonomous competitiveness and yet, this positive institutional set-up might not be sufficient to create a competitive regional economy. The reason is that the regional competitiveness depends also crucially on *what* enters the locality in the form of networked relations (Grabher and Stark, 1997b) and what forms the basis for reflection and learning among local actors.

The competitiveness of regions is, unlike their adaptability, related also to the ability of local actors to create networks capable of sustaining an influx of new impulses

that represent potential sources of future competitiveness. The ability to maintain an inflow of such alternative interpretations is crucially important even for regions that are competitive at present. These regions also could be bypassed by novel interpretations in the future and thus lose their competitive advantage.

Moreover, every region which undergoes a successful process of adaptation and increases the integration of its institutional set-up also creates a potential threat to its future adaptability and competitiveness. This is because a perfect translation, an alignment of interests and creation of shared interpretations can become entrenched to the point of determining future translations (Callon, 1991, p. 143). Due to a 'perfection' of a particular process of translation, actors might come to reproduce a limited number of existing practices and meanings in an unreflective way and close themselves to alternatives.

At the regional level, a similar process can take place within an integrated and competitive institutional set-up. Local actors might find it easy to interact with each other and might even reassure each other of the correctness of their interpretation. However, the 'perfection' of a translation and the local 'reach' of enrolment may eventually make actors 'blind' to alternative interpretations and experience what Grabher calls a 'cognitive lock-in' (1993c, p. 262). The whole region, as a consequence, might become unable to adjust and respond to novel practices to the point when it suffers from an '*institutional lock-in*' (Grabher, 1993c). In this way the institutional set-up of a region that once successfully accommodated a new impulse and aligned action frameworks of heterogeneous local actors can easily become an obstacle to its future adaptability and competitiveness (Grabher, 1993b, c; Amin and Thrift, 1994a; Glasmeier, 1994; Grabher and Stark, 1997b; Malmberg, 1997; Amin, 1998). Moreover, some empirical studies suggest that a transformation of a successful set-up into one which is 'locked in' can take place within a relatively short period of time (Grabher, 1993b; Sabel, 1993; Locke, 1996).

To avoid or minimize the risk of regional institutional lock-in, as well as the risk of being bypassed, a region needs to remain open to alternative interpretations of existing practices (Grabher, 1993b, c; Amin and Thrift, 1995, 1997; Grabher and Stark,

1997a, b). Such an *openness* to alternatives could temporarily undermine the cohesiveness of the locality and increase the fragmentation of a local institutional set-up, yet the same openness could also avert the negative consequences of a potential institutional lock-in and decrease the risk of missing out on the novel interpretative possibilities.

The long term competitiveness of regions thus depends on the ability of their institutional set-ups to sustain the process of adaptation and locally-based reflection and learning. At the same time, however, it also depends on the ability of local actors to identify and accommodate alternatives which might, at some future date, become a source of competitiveness (Amin, 1998). It is impossible, of course, to know in advance future sources of competitiveness, so we can only conclude that the long term regional competitiveness requires a degree of disruption to the integrated institutional set-ups.

Several authors have tried to explore this issue by arguing that long term competitiveness and adaptability require a degree of 'friction' (Hodgson, 1988), 'redundancy' and 'loose coupling' (Grabher 1993b, c), 'discrepancy' (Grabher and Stark, 1997b), or 'network of loose alliances' (Amin and Hausner, 1997, p. 12). These characteristics are likely to keep local actors alert, to increase the chance that no crucial alternative interpretation is missed and that no single interpretation becomes excessively dominant. However, the precise degree of friction or redundancy required seems impossible to specify beforehand. Even for the most successful regions, their long term competitiveness cannot be guaranteed and at some point their institutional set-up may become obsolete.

This conclusion, however, should not be understood as the inability of research to suggest ways that may increase the competitiveness of regions and which can prevent their institutional lock-in. The research, I want to argue, can contribute substantially to such a task, but it should not attempt to specify a 'model' institutional set-up with some specific cultural features as a way to greater competitiveness. The success of regional economies and the sustenance of their competitiveness should be regarded instead as a process of a continuous search for a compromise between the openness and the integration of their institutional set-ups. To maintain their competitiveness regions and

their actors need to strike a delicate balance between, on the one hand, the enrolment, alignment and integration of local institutional variety and, on the other hand, the preservation of openness to new impulses. Some regions might require a closer integration of diverse local practices and meanings that would allow local actors to exploit the potential of the existing institutional variety. Other regions, on the contrary, might require a greater openness that would disrupt their integrated institutional set-up, but would increase their limited cultural and institutional variety. Rather than a universal model, the aim of the research should then be an assessment of the character of local institutional set-ups, their integration or fragmentation, and the search for a compromise between integration and openness.

A culturally informed socio-economic approach, as advocated and developed in this chapter, I believe, provides a useful framework within which to analyze the character of local institutional set-ups and assess the adaptability and competitiveness of regions. The acknowledgement of the contested and evolutionary nature of the socioeconomy, however, prevents this approach from making any general or universal statements about the character of an adaptable and competitive institutional set-up. This is probably the limit of what a culturally informed socio-economic perspective can say about the long term competitiveness and adaptability of regions.

CONCLUSION: SUMMARY OF THE CONCEPTUAL FRAMEWORK

This chapter has sought to develop a framework which provides a conceptual lens for analyzing the forms of embeddedness in individual regions and for assessing their long term adaptability. This framework does not underestimate the importance of traditionally 'economic' factors, but it aims to collapse the artificial distinction between the 'economic' and 'social/cultural' characteristics.

The present approach is based on the work of geographers close to the socio-economic approach (Amin and Thrift, 1995, 1997; Amin and Hausner, 1997; Grabher and Stark, 1997a, b; Storper, 1995, 1997; Storper and Salais, 1997) which it combines with the theoretical work of Bourdieu (1977, 1990, 1991) and with the actor-network

theory (Latour, 1987; Callon, 1991). Its aim is to explain the differentiated economic success of regions by analyzing meanings and practices that are recognized by actors in individual regional contexts (i.e. instead of attempting to extract 'ingredients' of social and cultural characteristics 'responsible' for diverse economic performance). This is done by exploring the ways in which contested meanings and practices have stabilized over time into action frameworks and institutional set-ups that, in turn, create specific forms of rationality with diverse preconditions for the adaptability and competitiveness of regions. This analysis of locally-specific forms of embeddedness and the explanation of their diverse adaptability can be described as dynamic, processual and non-functional.

It has been argued that the research, in order to explain the diverse ability of regions to adapt and 'hold down' novel practices, has to analyze the character of individual action frameworks as well as regional institutional set-ups. The claim has also been made that such an explanation and assessment needs to focus on the cultural processes through which actors become mediators (Callon, 1991, 1998) capable of stabilizing and reproducing systems of meanings, practices and networked relations in individual regions.

In the part analyzing the issue of adaptability this chapter has suggested that the combination of a sustained process of perfect translation with an integrated institutional set-up will lead to an inclusiveness and a greater local 'reach' of translations. This will also increase the chances for the *collective* adaptation of actors which is, in turn, more likely to stimulate a reflection and learning within the locality and thus produce innovative interpretative possibilities and locally-based sources of competitiveness (Sabel, 1993, 1994; Storper, 1995, 1997).

The sustained economic success of regions, however, cannot be reduced to any form of institutional arrangement. It represents a *process* of searching for a compromise between the sustained process of perfect translation and an integration of heterogeneous action frameworks on the one hand, and a preservation of a degree of openness, which disrupts the process of perfect translation but sustains the inflow of alternative practices and interpretations. Ultimately, it is the ability to find the 'right' balance between the two that allows for 'holding down' of new impulses in a productive way, that is, in a way

which creates new interpretative possibilities and which may increase the competitiveness of regions.

There is no direct, chain-like causality in the evolutionary explanation of regional adaptability and competitiveness as it has been conceptualized here. This, however, does not mean that anything can happen, or that the culturally informed socio-economic approach cannot present any normative claims in respect of the prospective adaptability of regions. The evolutionary character of regional institutional set-ups produces a degree of irreversibility (Callon, 1991) which means that by analyzing the process of its evolution and stabilization in time we can deduce something about the possible future development of regions (Nelson, 1994; Storper and Salais, 1997). The socio-economic approach "can make no claims to predictability or determinacy" (Storper and Salais, 1997, p. 197), but it can nevertheless, contribute in an important way to the assessment of institutional set-ups and their adaptability. Moreover, it also represents a basis for evaluating which regional "pathways of development are more likely than others, and [which] are quite unlikely" (Storper and Salais, 1997, p. 197).

The empirical chapters of this thesis employ the theoretical framework developed in this and the previous chapter in the analysis and assessment of three regional institutional set-ups in the Czech Republic. However, before we turn to the issue of the adaptability of Czech regions and their ability to 'hold down' the process of internationalization in the post-1989 period, the analysis will focus on the socioeconomic system of Communist countries. The next chapter will explore the processes that produced uneven regional development in the Communist Czech Republic through the conceptual lens of a culturally sensitive socio-economic framework. It will also examine what diverse preconditions these processes produced for the adaptability and competitiveness of regions in the post-Communist period.

CHAPTER THREE: THE INSTITUTIONAL LEGACIES OF A CENTRALLY PLANNED ECONOMY

INTRODUCTION

The post-Communist economy of the Czech Republic, which is the empirical focus of this thesis, has gone through dramatic changes over the past ten years since the collapse of Communism in 1989. The transformation and marketization of the economic system previously based on central planning resulted in a complex reworking and reconfiguration of the practices, networks, and associated meanings inherited from the previous regime (Stark, 1992, 1995; Swaan and Lissowska, 1996; Róna-Tas, 1998; Smith and Pickles, 1998). The 'rupture' in the socioeconomic evolution of the formerly Communist countries led to a substantial reevaluation of the inherited practices through new, and often radically different, means of recognition and legitimation. This process can be regarded as a 'test of adaptability' of the inherited institutional legacies in which the performance of individual Eastern European countries as well as regions do and certainly will continue to vary. This variety of regional socioeconomic transformation and the differential success of regions in achieving competitiveness in the market-oriented environment are an outcome of a combined effect of two factors which are both bound to vary over space. First, regional differences will reflect the different institutional legacies of locally-specific practices, networks and understandings, which, despite the 'rupture' in the socioeconomic evolution, will be partly irreversible. And second, they will also reflect the different ways in which local actors use, rework and transform these legacies (Stark, 1995; Grabher and Stark, 1997a, b; Smith and Swain, 1998).

The crucial role of the legacies of the past, therefore, requires that before we embark on an analysis of the post-Communist transformation we need to have some understanding of the processes which guided the operation of the centrally planned economies. The aim of the present chapter is to provide precisely such an insight into

the processes which created the legacies of post-Communist countries and regions of the 1990s. This is done by employing the theoretical framework developed in the previous two chapters to an analysis of the operation of the centrally planned Communist economies or, more specifically, of the centrally planned economy of Czechoslovakia.

The chapter starts by specifying some of the basic differences between the logic of socialist, centrally planned economies and capitalist economies, and for this purpose it explores the notion of 'soft-budget constraints' (Kornai, 1981). The next section employs the theoretical concepts of social and symbolic capital in an attempt to explain the actual, shadow coordination mechanisms characteristic of the Communist economies. This section describes the relationship between the recognized, official economy of Communism and the officially unrecognized, illegitimate informal networks which nevertheless played a critical role in the running of the economy and in the process of translating the formal rules of central planning into everyday informal practices. The following two sections turn towards the regional inequality produced by the functioning of the centrally planned economies. Here the stress is placed on the role of the locally-specific translations, that held together - with different degrees of success - elements of the official and informal economies in a form of local coalitions. It is argued that the locally-specific translations were responsible for unique forms of coordination of diverse action frameworks and resulted in a specific Communist form of uneven regional development. The conclusion explains how the operation of informal networks and local coalitions contributed to the final collapse of the centrally planned economic system and also sets the scene for the following chapter by stressing the importance of institutional legacies for the outcome of the post-Communist regional transformation.

THE CHARACTER AND FUNCTIONING OF CENTRAL PLANNING

The ideal and reality of socialist economies: planning and soft-budget constraints

The fact that socialist economies were different from the capitalist ones is generally accepted and recognized. What made them so different, however, is a much more difficult question. According to Szelényi *et al.* (1994) who provide a detailed review of the literature on this topic, there are three main criteria which may be used to distinguish between them: first, the two systems are characterized by different forms of ownership; second, their integrative mechanisms are different; and third, the socialist economies have a unique form of economic rationality which is radically different from the capitalist one. The first criterion means that the socialist economic systems tried to suppress individual ownership and substitute it by a collective one. The difference in integrative mechanisms means that one of the priorities of socialism was to substitute the supposed 'anarchy' of the market by rational planning characterized by a longer term consideration of economic activities. The change from the mechanism of market coordination to one of planning is closely related to the third kind of difference, namely to the type of rationality that governed centrally planned economies. While the market economies are based on 'formal rationality', the socialist thinkers criticized it for its instrumental reason which allowed "the despotism of means over ends" (Szelényi *et al.*, 1994, p. 234) and the sacrifice of all other considerations to that of immediate profit maximization. The socialist planners on the other hand were supposed to possess the 'substantive rationality' (Szelényi *et al.*, 1994, p. 234) which would allow them to determine the most efficient or optimal use of the surplus value of production in a way that would benefit the economy as a whole. The extracted surplus was supposed to be used for subsequent massive redistribution and an eventual eradication of all social inequalities.

It is a well known fact today that the reality of socialist economies looked very different from its original theoretical model and that they suffered from numerous chronic problems. In everyday practice the rationality of planning turned into a fairly irrational system which favoured the mass production of goods for which there was no demand, while at the same time leading to the persistent shortages of other goods (Szelényi *et al.*, 1994; Picklés, 1998). Also, the collective character of the ownership of economic means proved to be difficult to maintain in practice and it soon became clear

that the bureaucracy of state planners and directors of enterprises exercised *de facto* control of the property (Szelényi *et al.*, 1994; Mlčoch, 1997). The role of these people as privileged bureaucrats or 'nomenklatura'¹⁸ in the socialist society was only justified and legitimized as long as they kept fulfilling the economic and political directives of the Communist Party which was the only *officially recognized* and legitimate authority in the society. This built-in condition, as we shall see later, paradoxically reduced the overall economic efficiency of the whole socialist economic system and proved the 'substantive rationality' of socialism to be counterproductive in the long run.

Probably the best and most penetrating analysis to date of the microeconomic weaknesses of the socialist economy is provided by the Hungarian economist János Kornai in his book *Economics of Shortage* (1981). According to Kornai, the crucial problem facing the centrally planned socialist economy is control over resources. The resources in the planned economy are subject to what Kornai calls *soft-budget constraints*. This means that the budgets of socialist enterprises are not restricted by their accumulated profits because, in the socialist economy, the allocation of resources to enterprises is subject to negotiation and bargaining. Unlike capitalist firms, which can only produce as long as their production creates profits and their budget, inputs and resources are restricted by the criteria of their own profitability, their socialist counterparts can operate almost indefinitely despite apparent wastefulness of the use of inputs. Or more accurately, they can operate as long as the inputs and resources are available, as long as the planners provide them or the enterprise directors can mobilize them and can justify their use.

Bargaining over resources and inputs was thus a crucial aspect of managing an enterprise under Communism and took place largely between the directors and managers of state-owned enterprises and the state bureaucracy. However, each of the

¹⁸The originally Russian word 'nomenklatura' is a term which includes all the privileged people associated with the Communist regime. Unless otherwise specified the term includes both those who occupied positions in the economic sphere (the economic nomenklatura of enterprise directors, planners, bureaucrats in the sectoral ministries), as well as the political nomenklatura (those directly involved in the political hierarchy of the Communist Party at national, regional and local levels). The common characteristic of these people was that they were appointed to their posts by the bodies of the Communist Party, they were all CP members, and their jobs and careers were vitally dependent on their demonstrations of loyalty to it.

groups had rather different aims and interests. The aim of the state bureaucracy and its planners was to maximize their own power by attempting to maximize the amount of goods and services (i.e. the surplus) at their disposal (Kornai, 1959, quoted by Szelényi *et al.*, 1994), to withhold the inputs from the enterprises in order to accumulate more resources for further redistribution and planning purposes. The directors of state enterprises, on the other hand, had a direct interest in minimizing the production targets for their enterprises and in maximizing the resources and inputs allocated to them by the state bureaucracy. The motivation of directors was quite simple: in order to justify their position, to gain recognition in the eyes of the 'substantive rationality' of central planning as well as the Communist Party (of which they all were members), they had to fulfil the plan and its targets by at least 100 per cent. Thus in order to perform 'well' and legitimize their posts, the directors had to make sure that the targets were realistically low and that their company was allocated sufficient resources to meet them.

The success of their legitimation then depended mostly on their networking and bargaining ability at all levels of the bureaucracy, including bargaining with the planning boards, sectoral ministries, The State Bank and other governmental bodies. The existence of soft-budget constraints allowed directors of enterprises to negotiate and to bargain over anything from (usually quantitative) production targets and quotas, all kinds of subsidies allocated to enterprises, bank credits, to changes in administratively set prices of their products, infrastructure provision and housing development that could secure supply of extra labour force. Successful negotiators could obtain import permissions and supplies of hard currency for purchases of Western technology, funding for lucrative production activities or an allowance of export contracts, which further increased their prestige and recognition (Kornai, 1981; Szelényi *et al.*, 1994; Mlčoch, 1997, Pickles, 1998).

The combined effect of economic coordination based on soft-budget constraints and bargaining was a hoarding of resources by all enterprise directors. This was effectively the safest way to guarantee the fulfilment of the plan (Kornai, 1981) and the continued recognition of the directors by the political establishment. The enterprises kept hoarding all kinds of production inputs such as raw materials, spare parts for

machinery, fuel, labour force or even stationary for their administrative employees in order to satisfy the planned increase in output, energy consumption, or employment. The ultimate result was an acute shortage of most goods, both of inputs into the corporate sector industrial production and especially of consumer goods intended for individual consumption.

As a response to the persistent and repeated shortages, the directors of state enterprises developed an informal, 'shadow' system of bargaining between enterprises based on barter and mutual reciprocity among directors (Kysilka, 1989; Mlčoch, 1997). Its aim was to fix the holes in the plan, to secure a reliable flow of supplies which could make sure that production ran smoothly and that the plan was fulfilled. Such bargaining and shadow coordination mechanisms were especially pronounced within the so called VHJs, the industrial conglomerates of enterprises with a similar or related production programme and a common administration of resources (for details about the importance of the VHJ networks see Kysilka, 1989 or McDermott, 1997).

Bargaining and informal networks played an equally important role within the enterprises. They were crucial for negotiating the coordination of tasks and the supply of inputs between an enterprise headquarters and its divisions, between divisions, branches and departments, but also between the directors and the collectives of workers over issues such as the quality of work, speeding up of the production before the planned production deadlines, over provision of holidays or subsidised food for workers (McDermott, 1997; Pickles, 1998). All these activities, however, were not directed so much at fulfilling the plan but rather at its 'circumvention' (Smith and Swain, 1998, p. 36). The informal shadow system of coordination helped enterprises to cope and obtain the inputs they needed to fulfil the plan, but at the same time it was gradually making the whole system of central planning dysfunctional and was undermining its efficiency and legitimation in the eyes of the majority of people (Szelényi *et al.*, 1994; Mlčoch, 1997; Smith and Swain, 1998).

Mechanisms of coordination under Communism: the role of social and symbolic capital

The consequence of bargaining and the permanent shortages of goods made the role of networks in the socialist economies prominent (Možný, 1991; Szelényi *et al.*, 1994). This was equally true for the managers and directors in the economic sector of socialist societies, as well as for the rest of the population, the 'common people'. An immensely complex network of relationships was thus constructed at all levels of the society and with a small degree of exaggeration one could say that people eventually ended up accumulating networks instead of money or capital. The reason was that in the centrally planned economies it was not necessarily the most efficient or profitable workers or managers who were rewarded, as would have been the case under the hard-budget constraints, but the ones who possessed the best networking abilities. Only the people who were successful in building up their networks could tap into the resources which were distributed under soft-budget constraints and could increase their personal well-being, social or economic benefits above the average (Možný, 1991). Merit was only a minor criteria in the distribution of financial resources. Given the peculiar nature of the socialist economy the financial benefits were not necessarily the most important ones anyway, as the possession of money in the socialist economies did not provide a sufficient guarantee entitling people to the purchase of goods. So in fact the most important form of reward for the successful (or efficient in the sense of Communist rationality) individuals was access to the networks which they themselves created, and their position within these networks in which they were legitimized by their previous networking activities (Možný, 1991; Mlčoch, 1997; Róna-Tas, 1998).

People soon realized that the best way to use their abilities and skills was to invest in building networks of reciprocity and placing their relatives and friends into the key posts in the vital networks. In this way, they could obtain all they needed and when they needed it, despite the conditions of repeated acute shortages of goods and services. The whole of the state economy, including the retail and services provided by the state, as well as the corporate sector was therefore, step by step, colonized and put to an autonomous use by individuals, families, friends, and friends of friends (Možný, 1991). Families, in Možný's terminology, should be, of course, understood in a much wider sense than just that of biological relatedness, as a kind of *clientele* of family, friends and

cronies. The whole society in fact consisted of extensive 'families' or clienteles, some associated with others, some standing in an opposition to yet others, and most of them consisting of a mixture of both the nomenklatura families and 'the common people'.

Since the Communist society was not monetized in the same way as capitalist societies are, almost every economic transaction involved not only financial transfers but also a substantial essence of what Možný (1991), using Bourdieu's (1977) terminology, refers to as social capital. The source of social capital according to Možný (1991, p. 31, my translation) is

"the ability to create a complex tissue of social networks, the ability to understand how they are knit and using this knowledge to one's benefit [...] [T]his is done mainly by shuffling oneself and one's next of kin to the strategically most beneficial positions."

These networks of social capital were based on reciprocity and their primary rationale was the immediate shared interest of both sides in an exchange of material or non-material benefits. In this sense the networks of social capital followed a logic and rationality not very different from the capitalist logic of maximization of individual benefits. Their rationality represented an alternative, although officially unrecognized, system of recognition which substantially departed from the rationality of central planning and the symbolic power of the Communist regime. Nevertheless this rationality was commonly present in the shadow mechanisms which coordinated the functioning of enterprises and most directors and managers were dependent on such informal mechanisms for the fulfilment of planned targets and delivery of inputs. Even more pronounced was this alternative rationality in the operation of informal, reciprocal networks used by 'common people' for the accessing of resources and for the exchange of goods and services. The existence of an alternative system of recognition subsequently resulted in a system of practices or action frameworks that markedly differed from the practices prescribed by central planning.

However, the symbolic power and recognition that actors could achieve through the reciprocal and informal networks did not represent the most powerful mechanism shaping practices and action frameworks of actors in the Communist society. These networks represented only an alternative, unofficial source of symbolic recognition as opposed to the system of symbolic domination based on the enforced, officially

recognized and legitimate power of the Communist Party. The power of the Communist Party remained unchallenged and was guaranteed by the Constitution, as well as the secret police and armed forces. The legitimation of the individuals' actions was dependent and conditional on the opinion of the Party apparatus which guaranteed that certain practices were regarded as the only appropriate ones. So, although in theory everyone was equal, everyone knew that the reality was accurately expressed in the popular saying that "some people were more equal than others".

It was the nomenklatura, the people privileged by the Communist regime, who possessed and controlled the official symbolic capital¹⁹ and who were able to decide on the appropriateness of certain practices. The power of symbolic recognition which the nomenklatura was granted by the regime, gave them an advantage which strengthened their positions in bargaining and networking in relation to people who did not possess such official symbolic recognition. In this way an effective mechanism was created that allowed the nomenklatura to mediate the interactions between networked social capital and the official symbolic capital, as well as to create specific kinds of translations which could be used to their own benefit.

The membership and position in the Communist political hierarchy was officially the ultimate form of symbolic capital and means of legitimation which effectively could not be challenged and which gave actors the symbolic power to overrule any alternative means of recognition. This official symbolic capital could always have always been used to punish any defiance or to resolve conflicts and disputes over resources (Možný, 1991) in relation to the alternative, unofficial system of recognition. It always enjoyed a privileged position in relation to the power derived from informal networks based on reciprocity, profit making or any kind of self-interested, capitalist-minded rationality.²⁰

¹⁹See Možný (1991) who is using terminology of Bourdieu (1977) for a more detailed analysis of interactions between social and symbolic capital in Communist society and also for some interesting parallels between the symbolic domination and social organization of Communist societies and the Kabyle tribe of Algeria analyzed by Bourdieu (1977). Although Možný prefers the term 'cultural capital' to that of symbolic capital, he nevertheless accurately describes the mechanism of domination through a system of recognized and legitimate symbols and practices imposed by the Communist regime.

²⁰Under Communism the political rationality thus over-ruled the economic rationality which was the crucial difference between the capitalist and the socialist economic system. In capitalist societies politics also plays an important role in the economic sphere but the hard-budget constraints mean that in the long

In order to secure the reproduction of the whole political system and to control the symbolic power of recognition, the nomenklatura developed a complex system of ritualized practices, the purpose of which was to confirm regularly their positions by organizing demonstrations of popular support. These consisted of the regular participation by all people in manifestations and celebrations of Communist anniversaries, Party or trade union meetings, but also of more restrictive practices such as the recognition and acceptance by the public of the limited freedom of speech in relation to certain topics and so on.

However, the major difference between Bourdieu's (1977, 1990, 1991) notion of symbolic power and the symbolic power exercised by the Communist nomenklatura was that the symbolic capital of Communism was not universally recognized, accepted or taken for granted. On the contrary, the attitude of many people to the ritualized demonstrations of loyalty and support and often to the whole political regime itself, was highly sceptical and hypocritical. Moreover, this cynicism was constantly increasing as the shortages and inequalities intensified. Nevertheless the majority of people did take the factor of officially recognized symbolic capital and its system of practices into consideration and adjusted their activities accordingly, even if they did not believe in the legitimization of such practices and were aware of the possibility of doing things otherwise. They were forced to accept and reproduce the logic of the centrally planned economy to some extent, but in order to achieve desired goals they developed a technique of combining the official symbolic capital based on the political loyalty to the Communist Party with the symbolic capital derived from the informal networks of social capital.

The symbolic capital of socialism was thus an inherently undemocratic one and the only equality it produced was that everyone, including the nomenklatura themselves, was to some degree dependent on it as well as threatened by it. The official symbolic capital also caused an obvious tension in situations where the symbolic recognition of

run it cannot rise beyond a certain threshold. In the capitalist system, unlike in the pre-modern societies such as the Kabyle tribe analyzed by Bourdieu or the Communist regime in former Czechoslovakia (Možný, 1991), both social and symbolic capital are thus given a common denominator of money and profit on which both the economic and political rationalities agree.

the dominant Communist ideology clashed with the logic of an alternative system of symbolic recognition based on the self-interested rationale which put one's personal material interests and benefits above those of the Communist society.

The problem was that in comparison with personal material benefits the value of the official symbolic recognition and political support was quite dubious. From the point of view of the nomenklatura, however, the continued symbolic value and political domination of the Communist Party was a precondition for their own existence, as well as a precondition for the reproduction of the whole Communist system on which they were dependent. However, the interest of the 'common people' in the political support provided by the nomenklatura in exchange for other services and goods was entirely dependent on the trust of actors in the continuing existence of the official symbolic power and the future need for being legitimated by it. In other words, for most actors the need for official symbolic recognition and backing by the political regime was limited to a cynical instrumental rationality which could operate only as long as the majority of people believed that the regime would continue to exist.

Translation and economic practice in centrally planned economies

The nomenklatura were largely aware of the risk of increased public suspicion and they knew that it could threaten their legitimation and the reproduction of the whole system. However, the control over the recognized symbolic capital of Communism enabled members of the nomenklatura to make a viable compromise with the public. Many members of the nomenklatura soon realized that in order to maintain their legitimation it was very useful to be equally cynical and to use their symbolic power of recognition and capacity to bend and shape the officially recognized practices. The compromise involved the *translation* (Latour, 1987; Callon, 1991) of the meanings associated with the practices officially required by the Communist Party and central planning into systems of practices and meanings which were based on reciprocity and were understood to be mutually beneficial to both the nomenklatura and the 'common people'.

The nomenklatura therefore began to exchange some of their advantages, privileges, and benefits with some of the 'common people' for the kinds of goods and

services which the official economy was not able to supply. Through a particular interaction of their social and symbolic capital they allowed the action frameworks based on the official practices and meanings recognized by the Communist regime to be transformed into action frameworks which reconciled the differences between the official and the informal practices. The translated meanings and practices were much more acceptable to the public as they recognized the rationality of one's personal interests as equally legitimate.

The processes of translation and enrolment thus aligned and reconciled the differences between the two means of recognition: the political one connected with the Communist party which represented the unpredictable and ever changing political criteria of central planning, and the merit-based one which preferred reciprocal exchange and personal interests of actors. The translations created a fairly innovative action framework which represented a symbiotic relationship between the *nomenklatura* and the 'common people' embodied in different forms of *clienteles*. Virtually every actor, both members of the *nomenklatura* or the 'common people', had to rely on the support of their extended family, on their clientele. This network of people bound to each other by different mutual obligations could have been mobilized and called upon in time of need for support of one's own needs and demands (Bourdieu, 1977; Možný, 1991). The clienteles included both members of the *nomenklatura* and the 'common people' and each of them was characterized by a slightly different mixture of rationalities, according to the specific character of the processes of translation and enrolment which created them.

Each actor in the clientele was able to provide different resources and benefits to others. The *nomenklatura* could provide official recognition and backing or even a legalization of certain economic practices and actions. They could also provide certain types of services and goods available in the official economy, or through the networks of the shadow coordination mechanism of inter-enterprise barter. The informal networks among 'common people', on the other hand, could provide in exchange an illusion of recognition in ritualized demonstrations of support for the *nomenklatura* (Možný, 1991), as well as the resources that were impossible to acquire or difficult to control through

the official nomenklatura networks. These included 'commodities' such as academic distinctions and degrees, privileged quality of specialist health care, or Western goods and currency that were only available through the networks of the black market (Benáček, 1997). All these resources could be exchanged with other actors, members of one's clientele, to the mutual satisfaction of both sides. In this way the political cadres who, for example, wanted to get their own children to a university could use their privileges and influence to make sure that the university professor whose support they needed, could get an allowance for a holiday abroad or could buy a car without having to wait for several years.

To conclude this section, we can say that the role of clienteles was essential for survival in the Communist economy. This was the case for the members of the economic nomenklatura (especially the lower ranks), the directors of enterprises who relied on their clienteles in order to fulfil the plan, and also to get the kinds of goods and services which the official economy could not provide. Finally, the nomenklatura needed their clienteles also as a pool of reliable individuals who could be used as 'witnesses' ready to prove their truthfulness and loyalty to the Party (Možný, 1991). The clienteles were equally essential for the 'common people' who relied on them simply to obtain the goods and services in short supply, a group of goods and services that was getting bigger every year as the increasingly frequent shortages spread. The need for clienteles was also strong among the 'operators'²¹ (Benáček, 1997) recruited from certain social strata of the 'common people' whose actual job was the administration of the black market. These people usually did not possess the officially recognized symbolic capital and without official backing by the nomenklatura could have been easily prosecuted and criminalized.

The clientele thus represented a feasible compromise coordination mechanism between the official economy and the informal one (Možný, 1991; Mlčoch, 1997). It was backed by the official means of recognition and political support but, in reality,

²¹'Operators' is a term borrowed from Benáček (1997) and describes the people who specialized in 'operating' or running the black economy under Communism; people who could for a fee or a share of the price arrange any deal, supply of goods, official permission or a licence. For details see Benáček, 1997, p. 221-2.

through a particular kind of translation, the members of nomenklatura were able to turn it into an action framework which was very different from the official norm of prescribed practices. The translations in many cases created action frameworks which tolerated and recognized as legitimate a system of practices and meanings based on a capitalist-like rationality of personal gain and benefit. As the shortages were getting ever more severe, the need for clienteles and informal networks spread. Even the members of the nomenklatura, especially the lower ranks, but increasingly also the ones in the highest positions started to use them as a survival strategy and thus undermined the regime itself (Možný, 1991). As time went on, it was becoming clear that the interest in the symbolic capital offered by the Communist regime was fading and the symbolic power derived from activities leading to a personal financial and material benefit was gaining the edge. With cynicism, one could say that the kind of coordination and redistribution through reciprocal clan-like networks of clienteles was all that was left of the collective ownership and collective control over the resources.

CENTRAL PLANNING AND THE ORGANIZATION OF SPACE

From clienteles to local coalitions

The existence of clienteles also had an important consequence for the organization of space in the centrally planned economies since individual regions became largely dependent on the character of localized coalitions of actors. The way the centrally planned economies were organized in space led to the enormous significance of industrial enterprises in the organization of life at the local level. The economic nomenklatura of enterprise directors then enjoyed particularly important positions in shaping the local clienteles and the institutional set-ups of whole regions. The system of central planning implied a mutual dependence between enterprises and localities (Premusová, 1989; Illner, 1992a, b; McDermott, 1997; Clark and Soulsby, 1998; Smith and Swain, 1998) and, as Illner writes, the "socialist industrial enterprises [had]

assumed a wide range of functions in the social reproduction of their workers and of other inhabitants of their respective communities" (Illner, 1992a, p. 40).

Unlike the local councils, the enterprises, thanks to their direct links with the planning bodies and sectoral ministries, enjoyed much better positions in mobilizing resources which were in the short supply. These enterprises, as a consequence, often substituted the official role of local councils in managing the city and many of them also provided an alternative system of social services. These included the operation of company shops which were usually better supplied than the official retail network, the operation of company public transport, and the operation of kindergartens and creches, hospitals, maternity and medical clinics, hotels and holiday resorts for enterprise employees, stadiums and even cemeteries (Premusová, 1989; Illner, 1992a; Pickles, 1998).

Apart from having the official function of securing the 'social reproduction' of employees, this system which allowed the enterprise to dominate the localities also provided a very fertile soil for cultivating the clienteles based around the networks of local enterprise directors. The *local coalitions* thus came to play a central role in the organization of social and economic life at the local level (Premusová, 1989; Illner, 1992a; Clark and Soulsby, 1998). Through the networks of such coalitions the directors of enterprises could maintain their local recognition, they could use the other members of their clientele and their networks for fulfilling the planned targets and securing recognition by the Party, as well as for increasing their personal benefits. The directors could use the strength of their official networks with ministries and other central bodies, as well as the informal inter-enterprise networks of the shadow economy, for the mobilization of resources that could be offered for exchange with and redistributed to their clientele directly in the region where 'their' enterprise was located. In the localities the directors had the most immediate possibility of securing the loyalty of and gaining prestige and recognition by local clientele through redistribution. Here they could relatively easily gain control and leverage over people and their resources, abilities and skills that could then be called upon in case of need, or, as was often the case, in the time of retirement.

The mutual support and backing within the networked coalitions of directors and local people were usually based on reciprocity. The strength of backing and support for local economic nomenklatura was thus dependent on the quantity and quality of resources that the directors were able to mobilize and on the extent to which they were willing to redistribute these resources. If the directors were wise and supportive of their local clientele and also had suitable networks for mobilizing sufficient resources, then they could usually also rely on the support of local informal networks. In other words, these coalitions were based on a reciprocal rationality of exchanging goods and services for mutual benefit. Under ideal circumstances a system of local redistribution was created which could bring mutual benefit to all members of a local clientele.

In many cases such reciprocal networks actually did serve the interests of the locality as a form of protection of local interests against the demands of the centre and from other, non-local clienteles. The system of reciprocal networks acted as a mechanism of "self-protective localism" (Illner, 1992b, p. 483) which served the purpose of satisfying the needs of local actors and in some cases even represented "embryonic vehicles for local governance" (Smith and Swain, 1998, p. 37).

The prevailing practices and forms of rationality characterizing such local coalitions varied substantially between localities since they largely reflected the character of the processes of translation and enrolment through which the local actors, and the local nomenklatura in particular, mediated the meanings of the official practices and means of recognition (Premusová, 1989; Illner, 1992b; Clark and Soulsby, 1998). Sometimes elements of some sort of market-based rationality prevailed in the action frameworks of local actors, but due to the dubious value of money under Communism (Možný, 1991) the dominant practices were more commonly based on mutually advantageous forms of reciprocity. In any case, these locally-specific translations represented a departure from the officially recognized rationality of the Communist regime which prioritized the criteria set by the central plan. However, in order to be functional every local coalition had to recognize, take into account and incorporate the power monopoly and the official symbolic recognition enjoyed by the Communist Party. Failure to do so would be to expose the coalition to the risk of being dismantled as

illegitimate or even criminalized as an anti-socialist element by any officially recognized body of the Communist state.

Seeking to avoid the risk of disruption caused by the intervention of the Communist Party, the coalitions often chose to incorporate members of the Party who would lobby on behalf of the community and secure political backing. Most commonly, these were members of local political nomenklatura, the bosses of local or district units of the Communist Party (Illner, 1992b, p. 483). The reasons for which the local political nomenklatura became involved in the informal networks and lobbying on behalf of 'their' regions were perhaps in some measure based on altruism and local patriotism. Sometimes one could even talk about a sense of duty to and responsibility for 'their' locality on the part of local Party bosses. However, an equally, and perhaps even more important factor was their need to overcome another serious problem of the Communist system: their inability to accumulate, inherit, or to transfer the privileges, powers, and control rights over the means of production to someone else (Možný, 1991; Szelényi *et al.*, 1994; Róna-Tas, 1998). By the means of localized and spatially concentrated clienteles and coalitions of reciprocal networks, the nomenklatura were able to secure local recognition which was relatively easy to control and sustain through regular interaction. They enabled the local political nomenklatura to turn their temporal and uncertain advantages dependent on the changeable will of the Party into more durable locally or regionally-based networks of support, respect, prestige and appreciation that could, in turn, support their future claims, or the claims of their family, for any resources or action.

No matter what the motivation of the local nomenklatura was, certainly in some cases these coalitions and the lobbying in favour of regions proved to be an efficient mechanism of a peculiar form of Communist type of local and regional development. The peculiar character stemmed from the fact that the mechanism of development was based on the lobbying for and sucking of resources from the central bodies rather than on an active mobilization and utilization of local resources. Hence "the dependence on the centre was therefore paradoxically exploited as a strategic element in the efforts of localities to obtain extra resources" (Illner, 1992b, p. 483; my translation). Spatially,

such activities resulted in the creation of regional strongholds, bases, or regional 'kingdoms' where individual members of nomenklatura could be sure of the support of their clientele.

Local coalitions and uneven regional development under Communism

The development of local coalitions in many respects undermined or circumvented the effort of the Communist state to decrease regional inequalities. These coalitions were responsible for an increasing spatial unevenness since not all members of the nomenklatura had the same opportunity or degree of interest to turn their personal clienteles into local coalitions. Some members of local nomenklatura preferred to rely on their networks and bargaining with the central bodies and other industrial enterprises as the means of maintaining recognition and increasing their personal benefits. In other cases the enterprise directors did not even have suitable networks for the mobilization of additional resources that could be redistributed locally. This varied according to the networking abilities of directors but also according to the industrial sectors and the position of the company in the corporate hierarchy (Illner, 1992a; Premusová, 1989; McDermott, 1997). Generally coal mining and heavy industry such as steel, engineering or chemicals were the preferred sectors. The light industry, by contrast, was usually allocated much smaller resources thus making it harder for directors of these enterprises to mobilize additional resources for the benefit of the locality (Illner, 1992a). Equally, the regions without any enterprise headquarters where only branch plants were located had only limited powers and less autonomy in mobilizing resources and therefore represented the disadvantaged periphery of Communist countries (Smith, 1996; Pickles, 1998; Smith and Swain, 1998).

The importance of regional coalitions in Czechoslovakia was usually more pronounced in the more rural regions, especially in the recently (post-1945) industrialized areas in the eastern parts of the country (Illner, 1992a, p. 40). A classic example of this process which became very famous and widely publicized in Czechoslovakia of the 1980s was a cooperative agricultural farm (a kolkhoz) in a small village of Slušovice in eastern part of the Czech Republic. The director and managers of

this farm were exceptionally successful in combining their networks in the political hierarchy, which provided them with a source of recognition and legitimation by the Communist regime, with networks in the official economy (sectoral ministries, central planning committee and so on), and also with the informal networks based on reciprocity and market-minded rationality. The result of their networking activity was an almost 'perfect translation' (Callon, 1991) which reconciled the differences between the official and the informal economy, enrolled both local actors and the nomenklatura at all levels, and played largely to the advantage of the locality. The processes of translation and enrolment created innovative forms of action and, although the managers of Agrokombinát could not ignore the official practices required by the Communist regime, their mediation produced practices which in terms of efficiency and rewards approached the capitalist standards.

The agricultural cooperative farm slowly diversified its activities from agriculture and food processing, first to construction, and later to retailing. The company first built-up and later supplied a national chain of supermarkets which were as a rule better supplied than most supermarkets in the country. Eventually they even started the first production of PCs in Czechoslovakia. The employees of the 'Agrokombinát', as the agricultural coop was later renamed, enjoyed benefits unheard of in Czechoslovakia at that time: wages twice as high as the standard in similar jobs elsewhere (in a country with minimal wage differentiation), much easier access to holidays abroad, including even the summer camps in Italy for children of its employees (one should keep in mind that travelling to the West remained an unfulfilled dream for a vast majority of Czechoslovak citizens until 1989), cheap housing without waiting lists in houses constructed by Agrokombinát itself, and so on. The company subsidised many cultural and sporting events in the village, some of them of national importance, such as the national horse races for which a special stadium was built. The Agrokombinát constructed a huge supermarket in the village, far in excess of the needs of its 2000 inhabitants, which was managed by Agrokombinát itself and had preferential access to supplies of goods which were otherwise hard to obtain. As a result the village soon became a shopping destination for weekend shoppers from as far as 100 kilometres

away. One of the last projects which was meant as a symbolic demonstration of caring by the Agrokombinát's managers for the well-being of the community was a stretch of motorway five kilometres long constructed in the late 1980s which connected the edge of the village with the main national road (which presently has only two lanes!).²²

It is questionable, however, whether such economic success would have been achievable in a competitive market environment. The success of Slušovice certainly involved the mobilization of local resources and the enrolment of local actors in the creation of innovative interpretations and practices. However, it was largely thanks to their close ties with the Communist Party bosses at all levels of the bureaucratic apparatus that the management of the Agrokombinát were able to access and mobilize the enormous resources which were far out of proportion and far in excess of the company's significance in the national economy. These resources clearly had to be taken from other enterprises in the national economy which as a consequence suffered further shortages. Moreover, it was only thanks to the networks of political support that the director of Agrokombinát could justify the use of semi-capitalist methods of organization and rewarding and which were largely responsible for its extraordinary economic success and which would not be tolerated elsewhere. The success of Agrokombinát Slušovice, however, was relatively short-lived and it evaporated towards the end of the 1980s when its director lost political support in the high ranks of the Communist Party.

Not every village, town or region could achieve such a privileged status as Slušovice since the national resources were limited. Nevertheless, in most parts of the country the mechanism of reciprocal networks between local nomenklatura and their clientele led to the establishment of some sort of local coalitions which involved the directors of local companies, members of local administration, Communist Party councils and other local people. These, however, were rarely as well connected, closely knit, and as entrepreneurial as the local coalition described in the case of Slušovice. Quite often the regional coalitions were just *ad hoc* defensive mechanisms, the aim of

²²The example of Agrokombinát Slušovice is based on my personal experience and several visits to the village during the mid-1980s.

which was simply to protect the local or regional interests rather than "a strategic collective vision of local economic development" (Smith and Swain, 1998, p. 37-8).

In practice there were great differences among localities in terms of the strength and cohesiveness of local coalitions since the local reach of the processes of translation and enrolment varied significantly. Some enterprise managers had good 'vertical' contacts with people higher up in the Communist political and economic hierarchy, with the Central Committee of the Communist Party or with the sectoral ministries and planning committees. These networks represented the core of their clientele while local actors were neglected. Other managers had strong 'horizontal' ties with a localized clientele or other regional coalitions based around other enterprises. Some managers, such as those in Slušovice, might have had good vertical as well as horizontal networks. The result was a variety of regional institutional set-ups and a specific case of Communist uneven regional development.

It is also important to keep in mind that regions, even under the Communist regime, represented sites of multiple action frameworks, organizational logics, and often conflicting economic rationalities (Grabher and Stark, 1997a, b). Most regions and localities thus represented sites of co-presence, of both the networks and practices based on the entrepreneurial economic rationality of self-interest (and often the reciprocal exchange of goods, services and support) as well as the networks and practices based on the rationality of planning which could provide the official symbolic recognition and the political support. Each set of networks, practices and understandings represented a different action framework based on a different logic and means of recognition.

Every region, then, was characterized by a different form of coordination of diverse local action frameworks, by a different degree of openness and inclusiveness, as well as by different attitudes towards cooperation and negotiation of difference. Due to the peculiar organizational form of Communist economies, the crucial local coalitions and clienteles were usually centred around the management of local enterprises. The character of local institutional set-ups and the degree of their integration or fragmentation thus largely depended on the ability of local enterprise directors to

translate the meanings of the official practices and enrol diverse local actors in an alternative interpretation which was more acceptable for them.

In some regions the local coalitions therefore existed only in an elementary form and the action frameworks based on the officially recognized practices were almost entirely separated from the action frameworks of actors involved in the informal economy. The local nomenklatura in such regions were unable to negotiate their differences with the actors in the local informal economy and the local institutional set-up was fragmented and split between different means of recognition and antagonistic action frameworks. Yet some other regions, such as Slušovice, were characterized by an alignment of diverse interests of local actors which often produced innovative action frameworks open to new ideas. In such regions, the locally-specific process of translation, mediated by local nomenklatura, could result in an integrated institutional set-up which benefited the whole locality.

Thus we can conclude that even in the centrally planned economies there existed substantial regional unevenness which also produced diverse preconditions for regional adaptability. This spatial unevenness stemmed from the differences in the action frameworks of local actors, as well as from the ways in which local coalitions were held together and institutionalized by *locally-specific translations* of the official practices prescribed by the Communist regime.

It is, however, somewhat problematic to talk about the institutionalization of local coalitions and clienteles in the context of Communist economies because, in the majority of cases, these were simply embryonic forms of institutions. The Communist regime favoured an extreme form of centralization and was hostile to expressions of local autonomy and democracy (Illner, 1992a; Dostál, 1992). It resisted and effectively blocked any attempts at autonomous collective action and the local coalitions therefore never had the time to become fully institutionalized in a form based on a radically new, alternative system of recognition. Should the practices of any local coalition diverge substantially from the official logic of central planning, the actors would immediately run the risk of disruption and intervention by the Party bureaucracy just as eventually happened in the case of Slušovice.

It is equally difficult to talk about the adaptability of local coalitions or clienteles because the economic system of central planning had no effective selection mechanism and criteria of competitiveness (Szelényi *et al.*, 1994; Mlčoch, 1997). It did not value the ability to adapt to change as it preferred no change at all and even discouraged innovation on the part of individual enterprises. The requirement of symbolic recognition by the regime and subordination to the central plan thus largely restricted the scope for potential institutional mutations and the autonomous development of innovative organizational forms.

The lack of institutionalization of local coordination mechanisms together with the lack of motivation to adapt and innovate therefore represent some of the most critical weakness in the organization of the centrally planned economies. According to Smith and Swain (1998, p. 38):

"the Soviet system collapsed for essentially two reasons: first, the ineffectiveness of institutionalised networks to act as a vehicle for strategic collective action; and second, because the networks and institutions lacked the capacity to evolve solutions to unexpected developments."

It was only after the final collapse of Communist regimes in Eastern Europe in 1989 that local coalitions and clienteles could become official and legitimate means of autonomous regional development. Only then could these embryonic institutional forms reveal their adaptive capacity in a competitive, market-based environment.

CONCLUSION: THE ROLE OF INSTITUTIONAL LEGACIES

The collapse of the Communist regime was caused by a set of internal contradictions which gradually undermined its own organizational principles. The soft-budget constraints, together with a system of clienteles which combined the networks of formal and informal economy, produced a viable coordination mechanism, but it also systematically weakened the efficiency of the official centrally planned economy and gradually intensified economic shortages (Kornai, 1981; Možný, 1991; Szelényi *et al.*, 1994). The ineffectiveness of the official economy subsequently led to the increased need, on the part of the nomenklatura, to rely on the unofficial reciprocal networks of the shadow economy, as well as on the illegal, black market networks (Benáček, 1997).

This, of course, further diminished the legitimation of the political regime and the leverage of the nomenklatura.

At the same time, the nomenklatura were constantly threatened by the unpredictable character of the symbolic capital of Communism which could have turned against them at any moment and could have removed them from their jobs. The guaranteed role of the Communist Party and the 'substantive rationality' of central planning as the ultimate means of recognition meant that no institutional form based on an alternative form of recognition was permitted. The absence of competition as a selection mechanism reduced the ability to innovate, to generate and to accommodate new practices and, as such, to create radically new interpretative possibilities (Mlčoch, 1997; Smith and Swain, 1998). The shortages became ever more acute and the competitiveness of the Communist economies on the world markets constantly decreased. Ultimately, by 1989 when the Communist regimes in Eastern Europe were dismantled, the discontent with the system was so widespread that even most of the members of the nomenklatura, especially the economic nomenklatura, were already in favour of change (for more detailed analysis of the discontent of nomenklatura see Možný, 1991; Szelényi *et al.*, 1994; or Eyal *et al.*, 1997).

The years of the Communist regime, however, left the socioeconomic landscape with a differentiated quality of institutional legacies. Some regions inherited embryonic institutional set-ups dominated by profit-based reciprocal networks, which in turn facilitated future interaction and coordination between the former local economic nomenklatura, enterprise employees, local black marketeers and so on. Other regions, on the contrary, inherited fragmented institutional set-ups with antagonistic relations between individual local actors and their clienteles. These differences were not institutionalized to the same degree, as they would have been in the case of capitalist societies. Nonetheless, the legacies with which the regions entered into the period of post-Communist transformation continue to have an important impact on present regional adaptability and the ability to create locally-based innovations.

The next chapter provides a summary of the post-1989 privatization and economic transformation of the Czech Republic which increased the competitive

pressure and the need for adaptation on the part of individual firms, as well as regions. It also describes how these changes affected the future development of the inherited networked local coalitions and how the process of internationalization transformed the institutional set-ups and forms of embeddedness in the post-Communist regions.

CHAPTER FOUR: PRIVATIZATION, INTERNATIONALIZATION AND REGIONAL RESTRUCTURING IN THE CZECH REPUBLIC

INTRODUCTION

The collapse of Communist regimes in Eastern European countries in 1989 represented a kind of 'rupture' in the evolutionary development of their socioeconomies. What followed was a period of economic and social reforms which aimed to make the socioeconomic system of these countries compatible with a capitalist ethos. This was to be achieved by triggering the processes of marketization, democratization and privatization (Smith and Pickles, 1998). The transformation, however, was not a straightforward 'transition' to capitalism, but rather a slow process of adaptation in which the inherited networks and practices were adjusted to the market-based economic environment, characterized by a particular form of rationality and specific principles of symbolic recognition. The outcomes of these changes were highly uneven over post-Communist Europe (Smith, 1996; Pavlínek and Smith, 1998; Pickles and Smith, 1998; Smith and Ferenčíková, 1998) as individual regions did not fare equally well in what was a major test of their adaptability. Different local institutional set-ups, with highly diverse preconditions for adaptability and competitiveness, were produced in these new economic circumstances.

The previous chapter explained the processes by which the variety of institutional legacies of networks, practices and meanings in centrally planned economies were produced. The aim of this chapter is to build upon these arguments and to present an analysis of the processes of privatization and internationalization that played a central role in redefining the character and use of symbolic and social capital in the post-Communist economy of the Czech Republic. It also aims to demonstrate that the seemingly homogeneous processes of privatization and internationalization resulted in a wide variety of locally-specific ways of reworking and reconfiguring the regional cultural and institutional legacies (Smith and Pickles, 1998; Smith and Swain, 1998).

The first section discusses the notion of 'rupture' in the socioeconomic development of the post-Communist countries. It also argues that the path-dependent and partly irreversible consequences of privatization will produce a variety of locally-recognized practices and meanings with different preconditions for the adaptability of individual enterprises, as well as regional institutional set-ups. The next three sections describe the political background of the Czech privatization and discuss the apparent disparity between its intended aims and actual institutional outcomes. This is followed by two sections which analyze the 'recombinant property' (Stark, 1996) created through the method of voucher privatization and the position of enterprise managers in this peculiar Czech form of capitalism. It is explained that the Czech managers were often put in charge of restructuring their clienteles and local coalitions, as well as playing a central role in transforming the institutional set-ups in their localities. The last two sections then analyze the role of internationalization in shaping the economic environment in the Czech Republic. They explain the importance of internationalization as a source of new symbolic power, examine the possible variety of its impacts on regional economies and also consider its potential for creating adaptable and competitive regional economies in the post-Communist countries.

SOCIOECONOMIC RUPTURE AND PRIVATIZATION: THE CZECH ATTEMPT TO DESIGN A FUTURE WITHOUT THE PAST

Rupture, privatization and regions

There is no doubt that the end of Communism represented a *rupture* to the socioeconomic evolution of Eastern European countries. The major changes caused by this rupture involved a radical reassessment of the existing forms of symbolic recognition, as well as a suppression of the forms of recognition based on the legitimization and rationality of central planning and allegiance to the Communist Party. The existence of a socioeconomic rupture, however, should not lead us to think that the post-Communist countries will automatically dismantle their old, locally-specific

systems of practices, networks and meanings and replace them by a pre-given form of symbolic capital, or means of recognition imported from the West (Stark, 1995). This understanding, advocated by some Western multilaterals, has been rightly criticized (Stark, 1992; Gowan, 1995; Smith and Pickles, 1998). Moreover, some of these critiques (Stark, 1992, 1995) are equally critical of the notion of 'transition' on the grounds that it implicitly assumes that the transformations taking place in Eastern Europe are a part of a transitory process which will lead to some 'standard' form of capitalism. Such a presumption is clearly wrong and to think it correct one would have to ignore the enormous variety of 'transitions' observed in Eastern Europe (Smith and Pickles, 1998).

The notion of rupture in the socioeconomic evolution of Eastern Europe then does not imply a negation of the past. It marks the beginning of a *contestation* over the future direction of socioeconomic development, over the new definition of symbolic capital and the possible uses of networked social capital. This contestation is an open-ended process which consists of a major reworking, reconfiguration and transformation of the legacies of centrally planned economies (Stark, 1995; Stark and Bruszt, 1995; Grabher and Stark, 1997a, b; Mlčoch, 1997; Smith and Pickles, 1998).

These changes were characterized by attempts to increase competition and to adjust recognized practices to ones prevailing in Western countries. The actors, as a consequence of the rupture, were required to adapt from the certainty of a system dominated by one, official system of recognition to a system of plural, contested means of recognition characterized by selection and competing forms of symbolic capitals. Virtually all actors were induced to reevaluate the structure and contents of their network heritage and the character of their action frameworks. Many of the 'old' networks and practices based on participation and engagement with the Communist regime suddenly lost their value. Other networks and practices, often those associated with the informal economy and based mostly on reward by merit and reciprocity, suddenly increased their symbolic value.

The rupture found its concrete expression in the transformation of ownership rights, in privatization. Privatization was viewed as an essential part of economic

reforms and the process of transformation in all post-Communist countries. The unprecedented scale of privatization meant that in the post-Communist countries this process became a major force which formed the new economic environment and decided on what parts of the Communist institutional legacies will survive the transformation, which will be dismantled and disappear, and which will be reorganized, reconfigured and adjusted (Smith and Swain, 1998, p. 39-43). Privatization thus played a central role in shaping what became regarded as a recognized, efficient or 'normal' practice in the newly created private sector. It represented an irreversible translation of sorts which favoured certain practices, predetermined future development, and 'locked-out' other options for the future (Stark, 1992, 1995).

The legacies of the past, however, played an important role in shaping attempts to reform the socioeconomic system as well as the ways in which the privatization of state-owned enterprises was carried out. Although the form and mechanisms of privatization adopted at the national level were partly path-dependent and reflected the "distinctive paths of extrication from state socialism" (Stark, 1992, p. 48), the concrete outcomes of such a rupture at the local/regional level were still within certain limits subject to contestation. As we shall see, the interaction of actors' social and symbolic capital and the contestation over the meanings of legitimate forms of action produced locally-specific outcomes. They produced new practices and meanings which, again, reflected the legacies of inherited *local* action frameworks and institutional set-ups. The process of privatization thus did not coerce all actors in all regions to suddenly change their practices and understandings in the same way. In response to a sudden redefinition of the means of recognition, the actors instead began to mediate and translate the meaning of the privatization through their own action frameworks. The reform policy administered at the national level was thus turned locally into a set of practices and meanings specific to individual regions and localities.

In other words, we can say that the new, locally-specific practices and forms of recognition did not represent the building of "capitalism 'on the ruins of socialism', but 'with the ruins of socialism'" (Eyal *et al.*, 1997, in reference to Stark, 1992). As we have seen in the previous chapter, the 'ruins' are locally-specific and in the case of the Czech

Republic they are the ruins of the local coalitions, usually centred around the large, formerly state-owned enterprises. The character and content of the inherited networks, their prevailing forms of coordination, and the recognition of the key members of local coalitions by local actors, had in their own way influenced the locally-specific outcomes of privatization. All these aspects of local legacies influenced the translation of the privatization process into new practices and meanings which were, in turn, responsible for the different speeds of *adaptation* of regional economies to the new economic environment.

A major part of the legacy of central planning was also the dominant position of the large, formerly state-owned enterprises in their local labour markets. These enterprises often occupied positions of near-monopoly employers in their respective regions. The elaborate system of commuting to work established under the Communist regime created a pattern of large enterprises, each with their own commuting hinterland from which they attracted employees even over considerable distances (Hampl *et al.*, 1996; Smith and Swain, 1998). Due to this legacy, the large enterprises and the local coalitions centred around them were instrumental to the production of the meanings of privatization and marketization, and their distribution within regions (Clark and Soulsby, 1998; Smith and Swain, 1998). Even today the situation of the large, recently privatized enterprises often determines the economic standing of regions (such as the levels of unemployment, levels of income, skills and qualifications of local workers). At the beginning of Czech privatization in the early 1990s in particular, the networks of local coalitions centred around these enterprises represented the key channels through which the process of privatization was mediated. Much of this chapter therefore will deal specifically with the transformations of the social and symbolic capital of the people who managed the large state enterprises and who often had a major impact on the present shape of whole regional institutional set-ups.²³

²³The focus on the large, mainly manufacturing enterprises in this thesis is not to deny the importance of other, smaller firms, new start-ups and the increasingly important service industries (for their role in absorbing unemployment see Tomeš, 1996). It only emphasizes that the formerly state-owned enterprises and the firms created by their privatization still represent the backbone of most regional economies, largely predetermine the organization of the socioeconomic space in the Czech Republic (Blažek, 1996) and make many regions dependent on the networks of a dominant local employer.

However, in order to explain the transformations of the inherited regional forms of embeddedness and the interactions of social and symbolic capital at the level of enterprise, we need to look at the national level first. We need to understand the framework set by privatization for reconfiguring local institutional legacies. The following sections therefore describe the political background and the actual techniques of privatizing the large enterprises - the so called 'large privatization' - and their consequences for the character of the rupture at the local and regional level.

The politics of Czech privatization

Privatization, as an important aspect of the socioeconomic rupture, played a key role in shaping the emerging institutional form of the transforming socioeconomy in the Czech Republic. The ideas underlying the Czech model of privatization, however, were strongly influenced by concepts and ideas connected to the notion of rupture as a simple 'transition', as a complete dismantling of past institutional forms and a simple installation of a new, capitalist system (Stark and Bruszt, 1995; Mlčoch, 1997; Rychetník, 1997). The actions and rhetoric of the decisive political actors in the Czech privatization were based on neoliberal presumptions which systematically ignored or underestimated the role of institutional legacies (Stark, 1995; Mlčoch, 1997; for a frustrating but sincere retrospective confession of one key figure of Czech privatization see Husák, 1997). Their decisions were guided by a simplified notion of the 'market' and the belief that the market can be created by a mere change of ownership rights, that is by privatization. Privatization was also believed to destroy immediately the soft-budget constraints, the intricate web of networks between enterprises and state ministries, and to increase efficiency in the allocation of resources (Stark and Bruszt, 1995; Žák, 1997). At the same time, the existence of a market consisting of new owners was supposed to guarantee competition and to increase the welfare of the whole economy, as presumed in the standard economics textbooks (Rychetník, 1997). In words of Lubomír Mlčoch,

"the designers of Czech transformation relied too much on the institution of private ownership per se, in its instrumental sense. They believed that economics is a 'self-supporting construct' of sorts which - thanks to the self-interest of private owners - frees the dynamic forces of the market economy and guarantees a rapid increase in the efficiency of the economy." (Mlčoch, 1997, p. 44-45; my translation).

Under the influence of simplistic ideas about the market economy, the Czechoslovak Government²⁴ was keen to privatize and saw it as the centrepiece of its transformation strategy. Its main priority, however, was a simple change of property rights and the speed of this change was seen as a matter of utmost priority (Macháček, 1992). The role of the state was supposed to be restricted to finding a mechanism for changing the property rights, while the painful restructuring and other unpopular jobs would be left to the impersonal and neutral 'market'. Thus the state would not intervene at the enterprise level and the Government could also escape from taking direct responsibility for the future of enterprises (Mlčoch, 1997; Žák, 1997).

The almost unlimited belief in the positive power of private ownership and a fast privatization appears very clearly in the quote of Dušan Tříška, one of the economic advisors to the Government and also a designer of the Czech voucher privatization:

"Higher efficiency, financial discipline, discipline of management and restructuralization [...] will come out of a change in ownership. We do not have any other option to liberate ourselves from state, to breathe. Swift privatization is an unavoidable condition for this. If we do not succeed it would be better to let national property be stolen gradually by the nomenklatura management, as in Russia. This spontaneous, wild privatization would be less harmful than leaving the companies in the hands of the state." (quoted in Macháček, 1992, p. 57-8).

The policy based on the faith of the key Czech politicians in this simplified notion of 'market' was initially almost unopposed by any substantial and strong lobbying group (such as the enterprise managers in the case of Hungary or trade unions in Poland). This was largely because the Communist regime in Czechoslovakia was holding power almost unchallenged and had successfully suppressed any organized opposition until its end in 1989 when it capitulated unconditionally and without resistance (Stark, 1992). By this time the regime was entirely discredited, but the opposition was unprepared for taking over power. This lack of organized groups with alternative scenarios left the free-market radicals in the post-Communist Government with a free hand to act and implement their reform plans.

²⁴I speak about Czechoslovak Government here as it was this one which until 1992 has been making all the crucial decisions related to privatization. After the June 1992 elections most of the key neo-classical economists, including Václav Klaus (the ex-Federal Minister of Finance and until 1997 the Czech Prime Minister) left the Federal Government of Czechoslovakia and entered into the new cabinet of the Czech Republic.

The claims that 'any owner is better than the state' and 'the sooner the better' advocated by the Government economists around Václav Klaus, no matter how exaggerated, were widely accepted by the Czech public and made it possible to translate the neoliberal ideas and rhetoric into concrete privatization methods. Given these circumstances, the only major problem related to mass privatization was just a technical one: how to establish an efficient, profit-based competitive environment of new private owners if the personal savings of the local population were insufficient for buying the large industrial plants? Since the new Czech Government of PM Klaus brought to power by the 1992 elections was not willing to look for potential new owners abroad and to negotiate with them on the behalf of individual enterprises (Žák, 1997; Hayri and McDermott, 1998), alternative methods for the mass or so called 'large privatizations' had to be sought instead.

The aims of large privatization²⁵

The framework for large privatization was approved by the Czechoslovak Parliament in April 1991. Subsequently, the National Property Fund (NPF) was established with the aim to execute the decisions of the Ministry for Administration of National Property and its Privatization (or just Ministry of Privatization). Privatization was based on the submissions of privatization projects which were competitive, open to the public, with anyone allowed to submit one. However, the legal procedure was rather complex and required a good knowledge of the situation within the enterprise in question and thus gave the 'insiders', the current management and partly also the employees, a clear advantage (Kotrba, 1995; Mlčoch, 1997). To make sure that there was at least one project for every enterprise, the current management had been obliged by law to submit the so called 'basic project' for their enterprise.

The repertoire of privatization methods available offered five options: transformation into a joint-stock company (corporatization), direct sale, public auction,

²⁵This section describing the procedures of large privatization and the voucher method draws on Macháček (1992), Brom and Orenstein (1994), Kotrba (1995), Husák (1997), Mertlík (undated), and on the interviews at the Czech Ministry of Industry and Trade (see the Appendix). Especially Kotrba (1995) provides a lot of detailed empirical information and time schedules of the process, while Husák (1997) provides lots of interesting detail of the 'behind-the-scene' privatization decisions.

public competition (tender), and free transfer to a municipal authority. However, only the first two methods are of interest here as the proportion of property privatized by the remaining three methods was almost negligible (only about 6 per cent of the total privatized property; for details see Kotrba, 1995 or Brom and Orenstein, 1994).

The method of corporatization meant that the state-owned company would be transformed into a joint-stock company and its shares would be, according to the specifications of the winning privatization project, either distributed amongst the public through the voucher method, sold to domestic or foreign investors, or very rarely, to the employees. Any combination of these transfers was allowed under the corporatization method. Some shares in the so called strategic enterprises could also be temporarily or permanently kept in state hands and administered by the NPF on its behalf.

The method of direct sale was a fairly standard privatization method which consisted of a transfer of property to an appointed buyer, either domestic or foreign. Direct sales to foreign buyers, unlike the corporatization method, required the consent of the Government²⁶ while the direct sales to domestic buyers consisted mostly of management buy-outs. Domestic direct sales, however, were very rare, especially in the initial stage of privatization, as they were considered harmful to the future financial standing of a company (profits would be used for the repayment of the privatization loan). They were also unpopular for political reasons because they seemed to give an advantage to the former economic nomenklatura.

The privatization methods could have been combined at will, but in practice there was a strong political pressure from the designers of voucher privatization to maximize the use of the corporatization and the subsequent distribution of shares by the means of the voucher method (Žák, 1997; Hayri and McDermott, 1998). This procedure was presented as the most just one, offering everyone equal opportunities (Husák, 1997). The corporatization method and distribution of shares by the voucher mechanism

²⁶Another difference between domestic and foreign buyers was that the domestic ones were obliged to pay the nominal value of an enterprise while the foreign ones had to submit a price based on an audit by an authorized firm and this price was further negotiable. This mechanism, originally intended as a discrimination against foreign buyers and a way of squeezing more money out of the foreign investors, often turned to an advantage for foreign buyers as the nominal book value was commonly well above the value based on Western standards of auditing (interview with general manager of Autometal Příbram).

eventually represented about 86 per cent of the total value of the privatized property while direct sales accounted only for some 7 per cent (Kotrba, 1995). The voucher privatization therefore became the decisive part of the whole privatization process in the Czech Republic (Brom and Orenstein, 1994).

The idea of voucher privatization gained ground among the governmental economists as early as 1990 as a politically popular way to 'privatize without money'. Although this method has never been employed on such a large scale before, the Czechoslovak state decided to apply it despite its highly unpredictable consequences for future enterprise governance and for enterprise restructuring. The central idea of the voucher privatization method was to distribute the property to citizens for a token cost, for a transaction fee equalling some 20 pounds (for details and description of the distribution mechanism see e.g. Macháček, 1992 or Kotrba, 1995, p. 171-6). The citizens would thus become shareholders and direct owners who would, as the economics textbooks suggested, be guided by their own interests and responsibilities, exercise control over the managers and if dissatisfied would replace them. This rather naive and populist idea, which ignored the importance of the existing forms of governance soon became very popular among wide public.

Although the government economists held that privatization would clarify the ownership rights and responsibilities of the new owners, the outcomes often turned out to be somewhat different. Apart from individuals exchanging their investment points for shares of the privatized enterprises, the voucher programme provided another mechanism which could transform the corporate governance of the privatized enterprises - the investment privatization funds (IPFs). After some heated discussions about the risk of a complete dispersion of ownership, the Government decided to permit the institution of IPFs arguing that these corporate bodies would represent an opportunity for entrepreneurial individuals to collect the investment points of other people and invest them collectively on their behalf. Individual investors would then become shareholders of IPFs instead of the privatized enterprises themselves.

The success of IPFs was spectacular. They launched a massive advertising campaign that enormously increased public interest in voucher privatization and they

eventually collected some 72 per cent of investment points from the individual investors in the first wave of privatization and little less than two thirds in the second wave (Brom and Orenstein, 1994). The IPFs thus reduced the risk of a complete ownership dispersal. Most voucher-privatized enterprises were thus controlled by IPFs and those which were not usually lacked any clear corporate governance at all. However, apart from this positive role the IPFs also created another huge problem since all but one of the six biggest IPFs were funds established and owned by the large Czech banks (Brom and Orenstein, 1994; Kenway and Klvačová, 1996). The banks through their IPFs thus became a crucial element of corporate governance in the voucher-privatized enterprises and indeed in the Czech economy as a whole.²⁷

The outcomes and paradoxes

The enormous problem, or rather paradox, associated with the institutional outcome of privatization was that all the big Czech banks which owned the largest IPFs were themselves still majority state-owned. They were recently established institutions created by a split of the monopoly of the State Bank of Czechoslovakia in 1990 into several smaller, commercial banks (Hrnčíř, 1994). These new commercial banks also inherited a proportion of the enormous loans which the State monobank provided to the state-owned enterprises in the past. The banks also inherited the long established web of personal networks that connected the bank employees and their traditional clients, the managers of privatized enterprises (Brom and Orenstein, 1994; Hrnčíř, 1994). The new banks were thus from the very beginning closely tied to their major clients through the credit networks (Mertlík, 1995; Kenway and Klvačová, 1996), while the voucher privatization turned the banks into *de facto* owners of the enterprises and resulted in a dead-lock situation of mutual dependence between the enterprises and the banks.

The banks were poorly capitalized and therefore vitally dependent on their major clients' repayments. They were reluctant to start their bankruptcy procedures and hoped instead for state intervention. In the meantime, they prolonged the existence of soft-

²⁷For details and interesting empirical findings of the composition of corporate boards in the voucher-privatized companies see Brom and Orenstein, 1994.

budget constraints by postponing the bankruptcies and debt repayments. From the point of view of the banks, this strategy was well justified: a bankruptcy of one large enterprise would, due to the insolvency and a chain of secondary indebtedness between enterprises, trigger a domino effect of bankruptcies (Hrnčír, 1994; Mertlík, 1995; McDermott, 1997). Such a development could clearly endanger the very existence of the banks themselves.

The fact that voucher privatization made the state-owned banks the key owners of Czech industry, had serious consequences for the corporate governance of many enterprises and also for the whole national economy. The Government of Václav Klaus, despite its continued liberal rhetoric, was eventually pushed to pour money into the banks, but often without controlling the further use of these funds.²⁸ Voucher privatization thus produced a situation very similar to the soft-budget constraints of the centrally planned economy and created conditions conducive to the reproduction of many of the networks, practices and meanings inherited from the past. The banks, as the new owners, were supposed to act as the agents of restructuring yet did not have the means to carry out or control the restructuring of enterprises. Moreover, they also lacked the motivation to do so since the Government showed no clear signs of willingness to dismantle the soft-budget constraints. The banks that would be threatened by the closures of their unrestructured debtors thus preferred to postpone the painful restructuring and perpetuated the old ways of financing them (Mertlík, 1995; Stark and Bruszt, 1995; McDermott, 1997; Hayri and McDermott, 1998).

Another paradox of the voucher privatization was that the Czech Government has always been in its neoliberal approach strongly opposed to any evolutionary change which could potentially favour the existing nomenklatura managers. The Government of Václav Klaus has always stressed the need for a fast 'transition to capitalism' in the form of a 'shock therapy' (Macháček, 1992; Husák, 1997). The reconstruction or even state

²⁸For details of the mechanisms of state intervention through the web of networks between the state-owned Consolidation Bank, the NPF, The Ministry of Finance and The Ministry of Privatization see Hrnčír (1994) and Brom and Orenstein (1994). Brom and Orenstein (1994) also conclude that contrary to the neo-liberal image which the PM Klaus was trying to create, the "government involvement in the financial restructuring of enterprises has been one of the most significant characteristics of economic reform in the Czech Republic" (p. 896).

support of the old bank-enterprise and inter-enterprise networks was always against their declared principles. In reality, however, this Government had become a creator and an active supporter of '*recombinant property*' (Stark and Bruszt, 1995; Stark, 1996), of a complex web of relations and claims to the property with no clear owner and no clear system of accountability. Under these circumstances it was the actors who controlled the networks between the banks, their IPFs, parts of the state bureaucracy (Consolidation bank, NPF, Ministries of Finance and Privatization), and the voucher-privatized enterprises, that were able to use the state money and coordinate the slow selection between the viable and non-viable networks and practices, as well as between viable and non-viable firms (Mertlík, 1995; Stark and Bruszt, 1995; McDermott, 1997; Mlčoch, 1997; Hayri and McDermott, 1998). This development thus confirmed a continued decisive role for the enterprise managers, which is analyzed further in the next two sections.

MANAGERS, PRIVATIZATION AND UNEVEN REGIONAL DEVELOPMENT

Coping with recombinant property: the role of enterprise managers

The existence of the recombinant property produced by Czech privatization brought mixed reactions among commentators and researchers studying the phenomenon. On the one hand, there was a major worry that the banks would behave irresponsibly and prolong the existence of soft-budget constraints. The companies would keep on hoarding resources, building up large conglomerates with the money from the banks yet without taking into account the Western profit-based rationality and the need for restructuring (for a critique along these lines see e.g. Cook, 1996; Lyons, 1996; Kapoor, 1998; Harris, 1998). This, of course, would be a situation little different from the soft-budget constraints of the Communist economies and could not be sustained for long.

On the other hand, it has also been suggested that the Czech form of recombinant property might represent a useful symbiosis between the state, the banks, and the enterprises. The unexpected institutional arrangement produced by voucher

privatization might give the enterprise managers the time to adjust their practices, to renegotiate the inherited networks with other enterprises and actors in local coalitions. It might also allow them to find new markets and strategies for future expansion (McDermott, 1997; Hayri and McDermott, 1998) while the banks and the state could monitor the behaviour of enterprises and selectively redirect their resources (Hrnčír, 1994; Hayri and McDermott, 1998). Such a development would allow the corporate sector to adapt in the medium term at least. This slower but evolutionary rather than revolutionary change might, according to some authors, secure more stable institutional arrangements and a better chance for the long term adaptability of enterprises (Stark and Bruszt, 1995; Stark, 1996; Grabier and Stark, 1997b).

The discussion about the extent to which the soft-budget constraints are still present in the Czech economy and how harmful they are continues. It is questionable whether this is a widespread phenomenon, but this kind of behaviour seems to be quite common in the bank-enterprise relations of some of the so called 'flag ship' enterprises (Rychetník, 1997; Hayri and McDermott, 1998) where its effects appear to be detrimental (Kapoor, 1996).

The outcomes of large privatization, however, varied between enterprises in the degree to which ownership rights, competencies and control were clarified. Equally, the reactions of the enterprise managers to the recombinant property varied. These reactions were influenced, to some extent, by the corporate control resulting from the privatization process. Privatization partly restricted management's manoeuvring space since it had a direct impact on the composition of the newly established corporate boards in privatized enterprises and the vigour with which these new people defended the interests of new owners. The process of privatization thus largely determined the degree of effective control of enterprises by their new owners which was specific to each enterprise.

However, the most common outcome of corporate governance in the voucher-privatized enterprises was for effective control to be provided by the management and a passive role for the new institutional owners, the banks and their IPFs (Brom and Orenstein, 1994; Mertlík, 1995). This institutional arrangement has therefore assigned a

central role in enterprise restructuring to the managers of an enterprise, often the people who used to play a key role in local coalitions during the previous regime. The managers were put in a position where they themselves, in cooperation with the state-owned banks and parts of the state bureaucracy, were allowed to set the standard of new business practice in the post-privatization period. The key role in the system of recombinant property allowed the enterprise managers to create a peculiar Czech form of capitalism with its specific form of economic coordination (Stark and Bruszt, 1995). They could decide to a large extent about the future of enterprises and were permitted to benefit from the weak exercise of the ownership rights (Brom and Orenstein, 1994; Mertlík, 1995; Čapek and Mertlík, 1996; Mlčoch, 1997).

The managers certainly did not have a monopoly over presenting the recognized meanings and practices to the same extent as the Communist party used to have in the past since the 'building of capitalism' was a culturally contested process. Nevertheless, thanks to their position created by privatization, as well as their control over a unique set of networks and technical expertise (Brom and Orenstein, 1994; Clark and Soulsby, 1995; Eyal *et al.*, 1997), the enterprise managers played a prominent role in interpreting the new economic reality and endowing the new, capitalist practices with meaning.

Networks, symbolic power and regional unevenness

Despite the political rhetoric about the equal opportunities in privatization for everyone, the Czech privatization unintentionally turned the former economic nomenklatura into key players with a dominant role. The managers of voucher-privatized enterprises were not only allowed to preserve control over 'their' enterprises; but they often also gained the responsibility for restructuring their old networked coalitions (Brom and Orenstein, 1994; Clark and Soulsby, 1995; Eyal *et al.*, 1997; for a good analysis of the success of managers described as 'winners' of Czech privatization see Kotrba, 1995). The networks of the Communist period, as a consequence, survived privatization largely unaffected and although the legal status of managers and the form of property ownership changed, many of the people and their networks remained in place (Estrin *et al.*, 1995; Čapek and Mertlík, 1996).

The privatization process thus did not represent a very radical rupture in the development of the Czech socioeconomy. It did not remove the symbolic and social capitals of Communism and replace them by the 'market', as the designers of voucher privatization had imagined. Instead, it gave the management an opportunity to re-gain recognition and legitimation and use the market as a source of symbolic capital in the new, profit-based capitalist environment. Given their strong position in the networks inherited from the previous regime and the relative freedom to act as *de facto* owners, the Czech managers were allowed to use their network heritage and accumulated symbolic power to constitute a system of recognized practices. In this way they could redefine the criteria of recognition, as well as secure their own legitimation in the nascent capitalist economy.

The new understandings of market and the capitalist practices thus started to evolve and develop gradually as a result of the effort by individual managers to translate and mediate (Latour, 1987; Callon, 1991) the meanings of the new economic reality to their advantage.²⁹ The way in which the managers began to translate the meanings of the capitalist practices inevitably reflected their embeddedness in the networks of their clienteles and the structure and contents of these networks. Privatization, in a sense, uncovered the 'quality' of clienteles controlled by individual managers and their compatibility with capitalist rationality. It uncovered the extent to which the individual enterprise directors had been dependent for their recognition in the past on the symbolic capital of Communism; or, on the contrary, to what extent they had been truly entrepreneurial and relied on the informal networks, which could be useful in the competitive capitalist conditions.

It can be expected that those managers who in the past used to rely on the support of a clientele and local coalition which valued the market rationality of reciprocal exchange would find it easy to build upon their old networks. Through the

²⁹This description of the behaviour of managers presupposes that they are actually interested in preserving their privileged positions of enterprise managers and that they want to run the enterprise in the future. However, it has been also pointed out that many managers of Czech voucher-privatized enterprises instead of looking for a longer term benefit by the means of re-legitimizing their positions within their enterprises resorted to the short-term strategy of 'tunnelling' or 'juicing' the enterprise, i.e. different forms of asset stripping (Mertlík, 1995; Mičoch, 1997).

processes of translation and enrolment they could make their action frameworks compatible with Western capitalist rationality and thus preserve their recognition in the new environment. On the other hand, it can also be expected that the managers who in the past used to rely predominantly on the recognition derived from the allegiance to the Communist hierarchy would find it rather difficult to re-gain recognition. Their association with the official practices recognized by the Communist regime would make it hard for them to adjust their action frameworks to capitalist practices and adapt to profit-based rationality in a credible way.

The managers could not shed easily the heritage of their old networks and practices (Stark, 1992; Clark and Soulsby, 1995; Grabher and Stark, 1997b), and were therefore restricted in their actions by their inherited forms of embeddedness. The actual outcomes of post-privatization restructuring and the forms of 'capitalism' thus varied across space since they reflected the locally-specific combination of networks, practices and rationalities inherited from the old local coalitions with the new forms of recognition and new practices associated with the rationality of capitalism. These interactions between the networked social capital and the different kinds of symbolic capital translated locally into concrete practices and meanings of privatization and thus into locally-specific institutional set-ups.

To explain the varied outcome of post-privatization restructuring in individual enterprises and regions it is thus not sufficient to study the outcomes of privatization in terms of the forms of ownership and control rights. These are important features but they only set the limits of freedom within which the managers were allowed to operate and act (Mertlík, 1995; Čapek and Mertlík, 1996). The explanation of the actual restructuring process in individual regional contexts needs to explore the ways in which the enterprise managers started to rework the networks of their old coalitions and the ways in which they used these networks in an attempt to redefine the sources of symbolic power and means of recognition. In other words, an explanation of regional restructuring needs to analyze the role of enterprise managers in translating the meanings of capitalism and in enrolling other actors in a particular interpretation and reproduction of practices. These cultural processes, although aimed largely at

legitimizing the positions of the managers themselves, also had a major impact on the constitution and stabilization of institutional set-ups in individual regions.

The managers were left in the new economic environment with two basic options or strategies for how to regain symbolic capital and thus maintain their recognition and legitimation. First, the management could try to mobilize parts of their networked heritage and further cultivate contacts with the banks, the state administration and other members of their old clientele. Through these networks it was possible to obtain more credits, write off debts, but also enter into cooperative ventures with other Czech enterprises, research institutes and trading firms. At the same time, they could try to persuade others that this was what capitalism should look like, that the best solutions were the home-grown ones (exploiting the image of 'Czech capitalism') and that they were the most capable ones to carry out the project of restructuring. This strategy could be described as an attempt to regain symbolic recognition through a selective use of parts of the old coalitions and networks and by presenting them as compatible with the new, market-based capitalist system. Depending on how selectively these networks of social capital were used, the enterprise either kept running in pretty much the same way as before (i.e. extension of soft-budget constraints), or the practices were gradually adapted to the imperative of profit making and the enterprises developed into genuine domestic capitalist firms (Stark, 1996; McDermott, 1997; Hayri and McDermott, 1998).

Second, the management could try to establish entirely new networks and form new coalitions by internationalizing and linking with Western partners or investors. The practices of Western firms would be used by local managers as the means of legitimizing their positions.³⁰ This strategy was attractive mainly because it was relatively easy to use the presence of a foreign partner as a sign of acceptance by Western capitalism. Such acceptance often increased the local recognition of managers because for much of the Czech political establishment, as well as for the majority of

³⁰Kotrba (1995, p. 179) who conducted a detailed analysis of the success of privatization projects of voucher privatization gives empirical support for the theory that most foreign investment deals concluded within the framework of Czech voucher privatization were guided by this strategy. He suggests that "direct sales to foreign buyers were carried out according to projects submitted by the management. In many of these cases, it was clear that the management worked as an agent of those foreign companies."

Czech society, Western capitalism was the ultimate desired aim of transformation. The imported Western organization and production practices and their meaning could then be presented as the 'right' type of capitalism. They could be used locally as a source of symbolic capital and legitimation for the managers. This strategy would also enable the managers to get rid of parts of their old coalitions which they regarded as useless, to distance themselves from the domestic networks which might have been restricting their restructuring plans and give them a sufficiently strong backing to carry out their plans, even against local discontent and opposition.

This distinction is, of course, just a schematic one as most managers have probably been using a combination of both strategies, and a mixture of different networks as sources of recognition. What is important, however, is that the regional differences in the forms of restructuring can be explained by exploring the ways in which enterprise managers mediated the interaction between the respective symbolic capital of Western or domestic capitalism and their own networked social capital. The product of these interactions was the formation of locally-specific institutional set-ups which also created different preconditions for the adaptability and competitiveness of individual regions.

The rest of this chapter will focus specifically on one of the strategies of enterprise management, on internationalization. The following sections will explore the role of internationalization in the post-Communist transformation and will also analyze the reasons for its differentiated impact on individual regional economies.

INTERNATIONALIZATION VERSUS REGIONAL ADAPTABILITY?

The meaning of internationalization in the post-Communist context

Internationalization represents an important component of the rupture in the socioeconomic development of the post-Communist countries. Internationalization in this case means the opening of the post-Communist economies to the flows of foreign, and more specifically Western goods and capital, but especially to the practices,

meanings and forms of recognition based on the capitalist, market-based form of rationality. The importance of internationalization in the transformation of post-Communist countries stems from the fact that most political regimes in these countries declared compatibility with the West as their prime aim. The indicators of increasing internationalization, such as the amount of foreign investments, percentage of exports to the Western countries were therefore, and often still are, regarded as a measure of success in transformation (see e.g. Meth-Cohn *et al.*, 1996; Nicholls *et al.*, 1998).

The term internationalization as used here thus describes a process in which individual actors, firms or regions are linked into the international economy. It is given preference to the term globalization as it does not have the connotation of global interconnectedness or of a homogenizing process on the global scale. Use of the term internationalization is also justified on the grounds that except for a few enclaves, such as some of the capital cities of the kind of Moscow, Prague or Budapest which are truly becoming centres integrated into global flows, for much of the regions in the post-Communist countries this does not seem to be the case (Smith and Pickles, 1998). Moreover, in most post-Communist countries the involvement of the state in regulating and controlling the impact of international contacts on the national economies is quite substantial (Žák, 1997). Although these efforts were not always successful in the past (Gowan, 1995; Pavlínek, 1998), state involvement and its attempts to regulate the process of integration with the West also suggest the use of the term internationalization rather than globalization (Allen, 1995).

The process of internationalization was supposed to bring to the formerly Communist countries elements of the generally recognized, 'real', market environment and was associated with a substantial degree of symbolic recognition and power. In the Czech Republic, also, the integration with the West and the development of international networks were expected to act as a powerful force pushing the enterprise managers to accept a kind of 'Western capitalist' rationality. The opinion that all Western firms possess the 'right' kind of know-how and expertise of 'real' capitalism was quite widespread in the post-Communist societies of that time (Clark and Soulsby, 1995; Dörr and Kessel, 1996).

In reality, however, the institutional outcomes of Czech privatization meant that internationalization did not represent so much an external force 'pushing' the managers to adapt but became instead a process of their deliberate linking with Western companies. The enterprise managers sought to establish such networks and links in their effort to regain recognition and legitimation by tapping into the symbolic power which the post-Communist societies ascribed to Western capitalism. In the Czech case it was therefore rarely the case that the enterprises and regions were being pulled into the global economy by external forces and forced to adapt. On the contrary, the local actors often tried hard to attract foreign partners in order to use their networks and practices to their own benefit, unaware that such foreign involvement might have effects which in the future may be beyond their control. In any case, it was often local actors who, in the post-privatization period, began to mediate the meaning of internationalization and selectively used the practices imported by their Western partners.

Apart from the symbolic power which the contacts with Western firms carried, the process of internationalization was also usually characterized by some common features which were possible to observe directly. Compared to the action frameworks and rationalities of economic actors in the post-Communist countries, the practices and meanings brought through Western business contacts were quite distinct in several aspects. The process of internationalization, no matter whether in the form of export networks, direct investment or collaborative ventures, was likely to discipline local actors according to a particular form of efficiency and rationality, namely the criteria of market value. Stress on the control of costs, intensification of production process, productivity of labour, as well as the quality of products were features typically associated with Western managerial practices brought about by internationalization. The Western companies which established contacts with post-Communist enterprises also tended to be financially strong (at least relative to the cash-starved Eastern European enterprises), they controlled the technological, organizational and marketing know-how which was broadly compatible with and often competitive in the Western markets. All these features, combined together, also meant that the productivity and competitiveness of internationalized enterprises were commonly higher than those of the firms without a

similar degree of internationalization (Smith, 1995; Zemplinerová and Benáček, 1996; Mertlík, undated; Swain, undated).

Despite these important common features, internationalization in no way implies that its influence on the restructuring of individual enterprises and regions will be the same. Nor does it mean that its impact on regional institutional set-ups will always be positive from the point of view of their long term adaptability and competitiveness (Smith and Ferenčíková, 1998; Smith and Pavlínek, 1998; Mertlík, undated; Swain, undated). The issue of positive and negative impacts of internationalization on regional economies is addressed in the last section of this chapter.

The pros and the cons of internationalization: 'disembedded' regions and adaptability

The varied institutional outcomes of internationalization observed in post-Communist countries and regions (see Smith and Pickles, 1998; Smith and Pavlínek, 1998; Smith and Swain, 1998) is perhaps not very surprising given the differences in the locally-specific institutional arrangements inherited from the Communist period. Some authors, however, have argued that the differentiated impact of internationalization on the regional economies largely reflects the strategy adopted by the foreign partners (Dicken *et al.*, 1994; Sadler and Swain, 1994; Grabher, 1997; Smith and Ferenčíková, 1998). In many cases, it has been argued, the strategy of foreign firms has been responsible for the quick adjustment of the post-Communist enterprises to the value logic of Western capitalism, yet the only benefits flowing to the locality were the preservation of the employment levels and perhaps, but not necessarily, higher wages. Internationalization and foreign investment in particular have been criticized for the effect of 'disembedding' (Grabher, 1994, 1997; Smith and Swain, 1998) enterprises from their local networks. The process of internationalization associated with this particular strategy arguably results in a kind of restructuring characterized by an import of Western ways of doing things, by 'cloning' Western organizational and institutional arrangements which subsequently suppress or replace the potentially beneficial parts of local institutional legacies (Grabher, 1994, 1997).

This particular form of internationalization might bring recognition and legitimation to local managers, but it also implies a much harsher selection criteria which might cause unnecessarily large losses (Grabher, 1994, 1997). Apart from 'streamlining' the production and increasing its productivity, the 'cloning' of Western practices is likely to reduce the variety of ideas, practices and meanings within local institutional set-ups and thus reduce the scope for locally-based innovative initiatives (Grabher, 1994; Smith and Swain, 1998; Mertlík, undated). Internationalization of enterprises along these lines often leads to a quick adaptation to the imperative of profit making, but, according to these authors, it also runs the risk of a loss of adaptability (Grabher, 1993c; Grabher and Stark, 1997b). The 'cloning' and import of Western organizational forms are also likely to make it harder for actors to identify with a change of practices, to enrol other local actors in a common interpretation of facts and to align the differences between the action frameworks of diverse actors.

The empirical findings presented by these researchers show that this 'cloning' form of internationalization is quite common in the post-Communist countries (Grabher, 1994, 1997; Smith and Ferencíková, 1998; Pavlínek and Smith, 1998). The stress on the strategies of Western partners present in most of these studies, however, does not seem to account for the full complexity of internationalization and its role in regional restructuring. These studies implicitly presume a passive role for local actors in mediating the process of internationalization. They also tend to presume that foreign partners enter into a relationship with a fixed strategic vision which they subsequently implement, regardless of circumstances or the character of local institutional legacies. This is clearly a simplistic understanding of the complex cultural process which the internationalization of regions involves. Also, the limited enterprise-level evidence from Eastern Europe shows that the actual strategies of Western partners are shaped in the process of interaction with local actors and that enterprise restructuring is a result of the mutual adjustment of initial positions, adaptation and learning (Dörr and Kessel, 1996, 1997).

Nearly all the contacts between the managers in the post-Communist countries and their foreign partners started after 1989 from a point zero in terms of knowledge

about each other, or mutual trust. The scope for an adaptation of Western strategies to local conditions was thus constrained from the outset. Nevertheless, this initial disadvantage did not prevent many post-Communist managers from persuading their foreign partners about the value of local skills and abilities and from a gradual alignment of their different understandings and interpretations. In the case of the Czech economy especially, the privatization often left the managers in charge of enterprise restructuring, and therefore allowed them to negotiate with foreign partners and modify their initial strategic intentions. The disembedding effect of internationalization thus might have been reduced through the process of translation which resulted in a mutual adaptation, alignment and integration of local and Western action frameworks. In many cases, such as the ones described by Grabher (1994, 1997), Swain (1994) or Smith and Ferencíková (1998), this arrangement might, of course, never be created and the disembedding effect may be detrimental to the regional economy. The local company would then remain isolated from the ties of its old local coalition and thus entirely dependent on the practices and networks of the foreign partner.

The concrete impact of internationalization on regions thus does not seem to be determined by the strategies of foreign firms. It depends more substantially on the ability of local managers to mediate the meanings of internationalization and to mix this process with selected elements of their old clienteles and with the action frameworks of local actors. However, the positive role of the institutional legacies from the Communist period in weakening the disembedding effect and increasing the positive effects of internationalization should not be overestimated. The old coalitions certainly represented a fairly flexible system of local coordination and governance which helped the enterprise managers to fulfil the plans and survive the insecurity of central planning. In order to adapt to the new conditions of profit-oriented economy these elementary coordination mechanisms nonetheless need to be cultivated. These networks might be of a collaborative nature, trust-based and as such might allow for a smooth mobilization of resources, but their rent-seeking Communist mentality (Grancelli, 1995; Mlčoch, 1997) needs to be transformed into relations based on the rationality of Western capitalism and criteria of profit making.

In this context the disembedding effect of internationalization, in contrast to those who stress its negative role (Grabher, 1994, 1997; Pavlínek and Smith, 1998), can be regarded as positive and even desirable. The disembedding of enterprises from their old networks and the introduction of a value regime compatible with the rationality of Western firms may be necessary to prevent the regional economies from degenerating into an institutional arrangement characterized by many conflicting claims to the resources of the privatized enterprise. This institutional form could restrict the efforts for collective, profit-oriented actions and would represent an "endurance of *overembedded* networks which are 'locked in' to the rationality of the old environment" (Smith and Swain, 1995, p. 16; original emphasis; see also Smith, 1994, 1995; Smith and Swain, 1998). In such situations the management of an enterprise is exposed to continuous demands for help or for sharing resources by former allies who try to legitimize their right to such an action by the history of the common, kin-like partnership.³¹

The disembedding from local networks caused by internationalization and the transfer of decision making to the hands of an external force indifferent to the claims of the members of local coalition may therefore be regarded as a positive development. The association with Western partners can be used by local managers as a source of recognition which allows them to avoid the trap of 'overembeddedness'. As actors representing Western firms, the local managers can disentangle themselves from their old clienteles in which they are often regarded as peers with little legitimation for radically different action, especially if it is damaging to other members of the clientele (Clark and Soulsby, 1995; Dörr and Kessel, 1996, 1997). In this sense we can speculate that at least a partial disembedding from local networks is a precondition for a successful adaptation of local institutional legacies into an arrangement capable of 'holding down' the process of internationalization (Amin and Thrift, 1994b).

³¹See White (1990, p. 88) for a similar, but more general observation. White uses the term 'decoupling' rather than 'disembedding' but he also argues that the lack of decoupling can be the main cause for underdevelopment in many countries where accumulation of capital is hindered by similar requests characteristic of the pre-modern socioeconomies.

It seems, nevertheless, that the history of past cooperation based on the informal networks of local coalitions from the Communist period can help to establish well functioning trust-based networks founded on capitalist rationality (see e.g. Kuczi and Makó, 1997). The existence of such networks can potentially make the task of 'holding down' the process of internationalization easier, but the parts of the old networked coalitions have to be used selectively. Many networks and practices thus would have to be abandoned as incompatible with the socioeconomic system of Western capitalism. The presence of foreign partners can be especially helpful in such situations. Their symbolic power can act as a guarantee of sorts that the market rationality and the practices compatible with Western capitalism prevail and do not give way to the perpetuation of unsustainable soft-budget constraints.

The effects of internationalization on the regional economies are therefore neither positive nor negative *per se* and their impact is not solely a result of the strategy of Western firms. The actual outcomes of internationalization in terms of the network restructuring and the transformation of local institutional set-ups depend on the particular, locally-specific ways of 'holding down' the international networks and practices. Local actors do not always represent passive elements in the process of internationalization, nor do they represent simple channels for implementing the strategy of foreign firms. On the contrary, they can often influence substantially the interactions between the symbolic capital of Western capitalism and local networked social capital, and can mediate the selective use and mixing of local networks, practices and meanings with the imported, Western ones.

The character of Czech privatization placed the enterprise managers in positions from which they could mediate the interaction of Western firms with local networks quite successfully. They were allowed to a great extent to translate (Latour, 1987) the meanings of international practices, to integrate them with the action frameworks of other local actors, and to align (Callon, 1991) the differences between both local and foreign actors. The ways in which internationalization is mediated locally through the processes of translation and enrolment then decide whether the disembedding effect of

internationalization increases the ability to 'hold down' internationalization, or creates disembedded and dependent regional economies.

It may be expected that the mutual adjustment between local and Western actors and their inclusion in an integrated institutional set-up may potentially create shared meanings (Callon, 1991; Shapin, 1998), as well as enrich their action frameworks and create innovative interpretative possibilities (Sabel, 1993, 1994; Storper and Salais, 1997). If the attempts of local managers to re-legitimize their positions by internationalization follow this path and the managers prove capable of mediating the process of internationalization, the positive effect of disembedding may outweigh its potentially negative consequences. The regional economies would then very likely adapt to the market environment and become competitive and profitable relatively quickly (although perhaps not as quickly as in the case of 'cloning' of Western organizational models). More importantly, this form of internationalization would be also more likely to produce institutional arrangements based on locally-specific collective assets capable of evolving in order to adapt (Storper, 1995; Amin and Hausner, 1997; Amin, 1998) and therefore more likely to sustain adaptability and competitiveness over a longer period of time.

CONCLUSION: RUPTURE, INTERNATIONALIZATION AND REGIONAL ADAPTABILITY

The argument presented in this chapter is in line with the assertions of those geographers, economists and sociologists who see history and institutional arrangements of the past as a necessary clue to understanding the outcomes of the socioeconomic rupture and regional restructuring in Eastern Europe (Mertlik, 1995; Grabher and Stark, 1997a, b; McDermott, 1997; Mlčoch, 1997; Smith and Swain, 1998). It has been argued throughout this chapter that in order to explain the actual outcomes of the rupture, we need to analyze the ways in which privatization transformed rather than removed the institutional legacies inherited from the previous socioeconomic system. It was also shown that the form and method of privatization, although important for understanding

the control rights and corporate governance of privatized enterprises, is not sufficient in itself to explain the diverse paths of enterprise restructuring and the different speeds with which individual regions adapted to the rupture.

The chapter has argued, firstly, that in the Czech context the varied forms of enterprise restructuring and the success or failure of regional economies in adapting to capitalist rationality can be interpreted largely in relation to the efforts of local enterprise management to redefine the character of symbolic capital. The managers in most Czech enterprises were left in charge of restructuring enterprises which they effectively controlled. They were therefore motivated to use their networked social capital and transform the means of recognition in a way which secured the legitimation of their positions in the new economic environment. The process of privatization was thus translated by enterprise managers into new, locally-specific practices and meanings. It is the use of different types of the symbolic capital and their interactions with the specific elements of managers' networked social capital that, to a large extent, shaped institutional outcomes in individual Czech regions.

Secondly, the chapter has focused on internationalization as one possible and very powerful source of symbolic capital used by Czech managers. It has been pointed out that the symbolic power associated with internationalization can be employed by local managers to disentangle themselves from their embeddedness in the networks and practices of their old clienteles and local coalitions. The disembedding effect of internationalization, it has been argued, may in some cases be to the benefit of the regional economy and may help to create institutional set-ups capable of 'holding down' the process of internationalization. At the same time, however, this effect may also turn local enterprises into completely 'disembedded', powerless and dependent branch plants with all the negative consequences for their long term adaptability (see e.g. Grabher, 1994, 1997; Sadler and Swain, 1994; Smith and Ferenčíková; 1998, Smith and Swain, 1998).

The arguments which depict Western investments in Eastern Europe as 'cathedrals in a desert' produced by particular strategies of foreign investors (Grabher, 1994; Sadler and Swain, 1994; Gowan, 1995; Swain, undated) have been criticized as

deterministic and inadequate for explaining the ways in which internationalization transforms regional economies. This is largely because this approach tends to ignore the ways in which the mutual relations develop over time in the interaction between local and foreign actors. The argument presented here rather is that it is more appropriate to think about the impact of internationalization on regional institutional set-ups in terms of locally-specific translations (Latour, 1987; Callon, 1991). The translation of the meaning of internationalization, as suggested in Chapter Two, is produced through an interaction between the particular social capital of local actors and the symbolic capital of Western capitalism. Through the cultural processes of translation and enrolment, local managers were able to give the process of internationalization a concrete meaning which transformed the action frameworks of other local actors and gave the local institutional set-up its specific character.

Internationalization thus does not represent an external force which operates independently of its socioeconomic context, rather it is a force which modifies the networks, practices and meanings inherited from, in this case, the centrally planned economy; it transforms them and is also transformed by them. The compatibility between capitalist rationality and local institutional legacies, however, depends on how successfully the process of translation enrolls both the foreign and local actors and aligns differences in their respective action frameworks. Furthermore, it has also been suggested that a successful translation and integration of 'imported' practices, networks and meanings with 'old' local ones is not only possible, but can also become an important part of a process which creates adaptable institutional set-ups and competitive regional economies. These arguments will be further substantiated and supported by empirical findings in the chapters which analyze the material from the three case study regions.

CHAPTER FIVE: ON THE METHOD AND THE NATURE OF EMPIRICAL RESEARCH

INTRODUCTION

The main concern and topic of this thesis is the uneven impact of internationalization in the Czech Republic. The previous theoretical chapters introduced the three key concepts of internationalization, embeddedness and adaptability which represent the basis of a general analytical framework. This framework, in turn, can be used for an explanation of regional transformations, as well as for an assessment of the differentiated ability of regions to 'hold down' the process of internationalization. The second half of the thesis represents an attempt to apply the analytical framework together with the knowledge about the Communist and post-Communist Czech socioeconomy to the analysis of regional economies. The empirical chapters Six, Seven and Eight thus strive to explain and assess the impact of internationalization on the adaptability and competitiveness of three selected regions in the Czech Republic.

The present chapter, then, represents a link between the two halves of the thesis and its aim is to characterize the adopted method of research. The theory developed so far, however, is not something to be proved by the empirical findings, nor is it a pre-given framework which either 'fits' or does not 'fit' the empirical findings. The method of research described here is best understood as an iterative process in which the theoretical concepts were developed, confronted with the empirical reality, and reconceptualized in turn. It is a process which leads to a reflection and a refinement of the theoretical concepts. This chapter, then, aims to summarize this process of searching for a method of explanation adopted throughout the empirical part of the thesis.

The chapter is in two parts and four sections. The first part starts with a section that explains the gradual development of the three key concepts of internationalization, embeddedness and adaptability. The following section describes how the iterative process, through which the relationships between the concepts and the empirical material crystallized, and generated a framework able to explain the regionally uneven

impact of internationalization. The positionality of a researcher undertaking qualitative research is also briefly addressed in this section.

The second part of the chapter starts with a section explaining the reasons for the selection of the case study method and the technique of semi-structured interviews, and elaborates on the way in which interviews were transformed into theoretically informed case studies. The next section describes the process of selecting industrial sectors, regions and enterprises for the case studies and introduces briefly each of the case study regions. The conclusion presents the aims and the structure common to all the empirical chapters.

SETTING UP THE METHODOLOGICAL POSITION

Internationalization, embeddedness and adaptability: developing the key concepts

The main motivation for conducting this research project was my urge to understand the reasons behind the uneven impact of *internationalization* in the Czech Republic. I was amazed by the profound impact that the process of internationalization - or more specifically 'Westernization' - had on many aspects of life in the Czech Republic, while I was also puzzled by the uneven spread of its positive and negative effects across space. The process of internationalization showed many common features across Eastern Europe. The import of Western notions of efficiency, profitability, the discipline of value, the stress on costs and quality, all strongly affected the behaviour of actors in the post-Communist societies that were increasingly confronted with internationalization. To paraphrase Kornai (1981), the main common characteristic of the process of internationalization can best be described as a 'hardening' of the soft-budget constraints of Communism.

Despite this common feature, however, the regional outcomes of internationalization appeared to be highly differentiated and uneven. In some regions the increasing degree of internationalization seemed to reinvigorate local development potential and create locally-based innovations, which laid the ground for the self-

regenerating competitiveness of regional economies. In contrast, the same process worked through other regions to produce branch-plant economies and these regions increasingly became dependent on the external decisions of foreign firms.

Following recent arguments in economic geography (Grabher, 1993a; Amin and Thrift, 1994a, b), my aim was to explain this regional unevenness by employing the concept of *embeddedness*. During the initial stage, my understanding of the relation between this concept and the explanation of regional unevenness was strongly influenced by a critical realist methodology (Sayer, 1992). What I found particularly appealing about Sayer's approach was the distinction between necessary causal powers or mechanisms and contingent conditions. Within this framework the differentiated capacity of regions to 'hold down' the process of internationalization was to be explained as an outcome of the interaction between the general process of internationalization and the contingent, locally-specific forms of embeddedness. At that time my understanding of embeddedness was strongly influenced by an oversocialized, 'networked' approach (Cooke and Morgan, 1993; Powell and Smith-Doerr, 1994) which seemed to correspond well with Sayer's critical realist methodology.

However, the first round of empirical work suggested that processes of cultural interpretation and mediation play an important role in shaping the locally-specific outcomes of internationalization. This finding stimulated further reflection on the causes and explanation of regional unevenness. It helped to uncover the inadequacy of my original understanding of embeddedness that can be described as somewhat mechanistic. Such an understanding of embeddedness and its relation to the uneven impact of internationalization suffered from a rather crude, structuralist methodology of critical realism. Similar methodologies have also been criticized for their economism (Duncan and Savage, 1991; Pratt, 1991, 1995) and thus appeared unsuitable for an explanation of contested cultural processes.

More recently, then, I looked for a more suitable approach and my understanding of embeddedness gradually turned into a more culturally informed one. A central role in this 'shift' played the work of Pierre Bourdieu (1977, 1990, 1991) and actor-network theory of Latour (1987) and Callon (1991) which made embeddedness a concept that

still remains essentially networked, yet acknowledges and accommodates the influence of power relations. The action of actors, in this understanding, is embedded in both networked relations of social capital and a system of practices and meanings which involve the relations of symbolic power of recognition (Bourdieu, 1977). The explanation of an uneven ability of regions to 'hold down' internationalization thus required a method to provide a non-mechanistic explanation of the processes through which these power relations are transformed.

As a consequence of this reflection and reconceptualization of embeddedness, my understanding of *internationalization* has also changed: It has moved away from the original concept of a unidirectional, homogeneous force, towards an understanding based on the cultural theory and the contested process of interpretation of meanings (Bourdieu, 1993a; Hall, 1995). Internationalization, following this interpretation, acquires its locally-specific content through cultural mediation (Callon, 1991) and through the reinterpretation of its meanings by local actors. Internationalization is thus both a material and a discursive process which either transforms the existing system of practices and meanings, or gives rise to a new one. The concrete meaning of practices associated with internationalization is specific to individual spatio-temporal contexts and depends on the process of contestation, on the interactions with existing cultural and institutional forms in which the actors are embedded. Such a process of cultural contestation is largely responsible for the differentiated impact of internationalization on regional adaptability.

Finally, as a consequence of the reconceptualization of embeddedness and internationalization, my understanding of the concept of *adaptability* has also been transformed. This concept was, in line with arguments of several economic geographers (Grabher, 1993a; Amin and Hausner, 1997; Grabher and Stark, 1997a; Amin, 1998), identified in the initial stage of my research as the means of assessing the impact of internationalization on locally-specific forms of embeddedness. However, in the process of searching for a suitable explanatory framework, my understanding of adaptability developed gradually from a concept based on a mere co-presence of diverse networks to one that involves a dynamic analysis of culture. In my present understanding, an

explanation as well as an assessment of the impact of internationalization on regional adaptability needs to be based on an analysis of cultural processes. These cultural processes not only transform the local system of practices and create locally-specific meanings of internationalization, but they also change the capacity of local actors to reflect, to reinterpret meanings and to create alternative interpretations.

The research method as an outcome of a reflective and iterative process

This process of developing concepts, their confrontation with empirical reality and the task of reflection produced the method of analysis and explanation which informs this thesis. It can be said that the methodology evolved just as my understanding of the phenomena did. This evolution, however, was not a haphazard process, but the result of an iterative search, reflection and reconceptualization. During this process my understanding of causality has diverged substantially from the critical realist understanding of mechanisms. I still believe that the diverse ability of regions to 'hold down' internationalization can be explained through a causal analysis that can be arrived at through concrete and intensive research (Cloke *et al.*, 1991; Sayer, 1992). The refinement of the key concepts, however, highlighted the fact that the mechanisms of critical realist methodology are themselves contested and culturally conditioned and therefore do not represent a satisfactory foundation for an explanation of regional transformation.

The reflective 'loop' from the theory to the empirical work and back to theory thus resulted in a specification of the key concepts and in their refinement. The reflection on the relation between embeddedness and the uneven impact of internationalization brought to the fore the central role of culture in my understanding of causality. Most clearly this development can be demonstrated by the relatively late introduction of the cultural concepts of translation and enrolment. The importance of these concepts as a way of describing the cultural processes of mediating the meaning for others and making others involved only became clear as a result of interviewing experience. Only the interviews and concrete responses of interviewees stimulated further reflection and provided clues as to how the theoretical concepts of social and

symbolic capital are mutually transformed and how the relations of symbolic power can be altered by individual actors.

These developments in the theory complicated my original understanding of the term mechanism which, in turn, led to a reassessment of the adopted method and of my understanding of causal explanation. In my present understanding, the explanation of the diverse ability of regions to 'hold down' the process of internationalization needs to be based on an analysis of causality in the process of cultural contestation. The processes of cultural contestation encode the economic processes (Bourdieu, 1993a; Crang, 1997), produce locally-specific meanings of internationalization and create diverse preconditions for the adaptability of regions. Moreover, the character and outcome of these processes can take us towards a causal explanation with the help of the analytical concepts of translation, enrolment (Latour, 1987; Callon, 1991), as well as networks (Granovetter, 1985/1992), practices and the interpretation of meaning (Bourdieu, 1977, 1990, 1993a, b). The causality in such an explanation is culturally informed and is therefore much less deterministic, much looser and open-ended. Nevertheless, I believe, that this culturally informed method resulting from an iterative search, reconceptualization and corroboration by empirical material represents a more nuanced way of explaining as well as assessing the impact of internationalization on the adaptability of individual regions.

The assessment of regional adaptability to which this method aspires is based on the presumption of a degree of irreversibility, stabilization and reproduction of cultural processes (Callon, 1991; Law, 1991b). This irreversibility can provide some (although limited and probabilistic) understanding of future development and it forms the basis for a prediction of regional adaptability. At this point, however, the research method runs the inevitable risk of a subjective assessment. This risk is apparent in the case of concepts such as embeddedness and internationalization, which involve very 'soft' notions of understanding and meaning produced by individual actors. It is perhaps even more obvious in the case of judgements about and assessment of regional adaptability that also represent a normative claim with political implications for future actions. It is

thus important to acknowledge that such judgements are situated and that they carry the baggage of the researcher's own interpretations and understandings.

Inevitably, the judgements and empirical findings presented in the following three chapters cannot avoid this problem. Research is not a passive, uninterested process without any effects on reality. The method adopted here which aims to provide an explanation based on the interpretations given by individual actors cannot avoid the establishment of some sort of relationship with these people. In fact, these people and their interpretations presented in the empirical chapters also helped to construct, albeit unwillingly, the theoretical arguments presented in this thesis.

The method of causal explanation developed in this thesis acknowledges that the relationship between the researcher and the interviewees shapes the empirical findings. This approach does acknowledge that "all knowledges are shaped, contingent, and in some other world could be otherwise" (Law, 1991b, p. 6). The recognition of this fact nonetheless does not make the research presented in the following empirical chapters any less valid. It simply requires the researcher to be more reflexive and more aware of their position in interpreting and giving meanings to the empirical material.

It has to be stressed that this research started from a position which in no way intended to derogate the process of internationalization or the actors associated with this process. Neither does the research claim to provide answers to what represents the 'right' or 'wrong' kind of internationalization. Nevertheless, the work does aim to evaluate the impact of internationalization on the adaptability and longer term competitiveness of the case study regions. And this evaluation involves a strong element of personal value judgement which some of the interviewees might disagree with. Yet, the judgements about internationalization and regional adaptability are not arbitrary since the empirical material corroborates them and is also reflected in the theoretical arguments of the thesis.

The evaluation presented here is an outcome of a methodological approach constructed through an iterative process of reflection, confrontation with empirical reality and reassessment of the key concepts. This means that my values - although they are inevitably part of the research - do not pre-determine the outcome and findings of

the empirical research. The empirical findings, on the contrary, contributed to the reassessment of my values and attitudes, but not in a haphazard way. The empirical facts led to the refinement of the concepts, as well as the reevaluation of my position, which arguably made my personal attitude towards internationalization more open and balanced. At present I do not see internationalization as either 'good' or 'bad', but dependent on the local context. This, of course, does not reduce the degree of subjectivity and context-specificity of the empirical findings. What it does suggest, however, is that the findings were arrived at through a method of a rigorous search and corroboration by empirical material, which also involved a degree of self-reflection. The corroboration and reflection can, in turn, be used as a defence against accusations of voluntarism.

MOVING TO THE EMPIRICAL WORK

The method of case study and why three?

The nature of the methodology developed in this thesis suggests that the differentiated impact of internationalization on regional economies should be explained by analyzing the processes which constitute locally-specific cultural and institutional forms. Culture within this methodological framework is understood as a plural and contested entity, which results from multiple processes of translation and enrolment that stabilize institutional arrangements and give meaning to individual practices. The causality of explanation is based on the character of these cultural processes, on the interpretations of facts by individual actors who are themselves involved in the processes of translation, production of meanings and in the reproduction of practices.

Research based on such an understanding of causality requires an in-depth analysis of individual cases which could not be satisfied by data analysis or by statistical measurements in general. Moreover, this nature of causality did not even require a comparison of a large quantity of data for a great number of regions or firms. Instead, the stress on the role of cultural processes and the condition of an in-depth analysis

necessarily restricted the research to a small number of analyzed units. The method of case study and of a *culturally informed intensive research* (Cloke *et al.*, 1991; Sayer, 1992) thus seemed best suited for the methodological position developed so far.

Furthermore, *semi-structured interviews* were selected as a fitting technique for researching the character of cultural processes in each of the case study regions. This technique served as a rich source of detailed information about the ways in which individual actors interpret and understand certain facts and why they interpret them in such ways. The analysis of the understandings and interpretations, in turn, formed a basis for a 'softer' and more nuanced causal explanation of the uneven regional impact of internationalization. The semi-structured interviews served also as a good technique for finding out about the diversity of networks among interviewees and about the degree of their internationalization. This technique was further supplemented with secondary materials which allowed for a corroboration of the interview material (for details see the Appendix).

The actual process of interviewing required a transformation of the key theoretical concepts such as symbolic power, networked power or action framework into everyday speech accessible to interviewees. The strategy used during the interviews was to ask questions which set up a topic with the potential to reveal interviewee's attitude to a concrete set of events or individuals (e.g. Communist system of central planning and its collapse, suppliers and customers in the pre- and post-1989 period, foreign partners and negotiations with them). The open-ended nature of questions allowed the interviewees to describe in their own words their past actions, changes of attitudes and understandings on their part, as well as on the part of other actors. Supplementary, *ad hoc* questions, then, tried to pull out the reasons for such changes as perceived by individual interviewees. In this way the questions helped to uncover and identify what these actors valued as a source of symbolic power in the past and present; what significant changes occurred in their networked relations, and how did these changes come about; and also, how these changes impacted on the wider institutional arrangement within the region.

For example, questions about the character of relations with other bodies (enterprises, planning boards etc.) in the pre-1989 period helped to assess the attitude of interviewees to the Communist past and the symbolic power associated with the previous regime. Similarly, by asking how the positions of interviewees did, or did not, develop in the mutual negotiation with foreign partners, their relation to the symbolic power associated with internationalization could be assessed. Questions about the personal histories of interviewees, their background, past work experience, or their role in privatization served as a basis for evaluating the changes in the networked power and social capital, as well as the transformation of their action frameworks over the period since 1989.

The nature of Czech privatization gave the managers of privatized enterprises an important role in the restructuring of enterprise networks and also in the negotiations with potential foreign partners (see Chapter Four). These people therefore often played a key role in the process of interpreting and translating the meanings of imported, Western practices and generally, in mediating the process of internationalization in individual localities. This is also why the managers of local enterprises which had experienced some degree of internationalization were selected as the main target group for the semi-structured interviews (for details about the selection of interviewees see the Appendix). The empirical research confirmed the original expectation about the importance of local managers and highlighted the fact that the particular outcomes of internationalization in the three regions were largely influenced by the actions of people who manage the enterprises in question. Unless the managers were recently replaced, they represented the best informants about the past socioeconomic developments in the enterprises and regions as well as the history of internationalization in the region and its role in transforming the local institutional set-ups.

The researcher's own judgements in evaluating and re-interpreting the empirical reality also became a prominent issue at this stage of research since the interviewees would, clearly, never use terms which form the basis of my analytical framework. The major task, then, was to convert the responses back into theoretical concepts and research themes without changing the essence of respondents' interpretation. As a result,

it was also here, in the confrontation with empirical material, that the critical reflection on the key theoretical concepts and their most substantial refinement took place.

Despite my attempt to pre-structure the interviews by asking related sets of questions and clearly separating each set (see the Appendix), most themes kept coming back in responses to questions from several different parts of interviews. Because of that I produced large sheets (format A1) with themes such as 'transformation of symbolic power', 'network transformation', or 'change of understanding' as columns in the sheet. During the transcription stage quotes and notes were added to these columns from responses to questions originating from different parts of interviews. As further interviews from other companies were added on, a matrix of sorts was created which structured individual empirical case studies. The comparisons of quotes from different interviews within each region subsequently formed a basis for drawing conclusions and assessing the overall institutional set-up of regions.

Finally, one more point requires clarification at this stage. How many case studies are appropriate within this type of research project? I felt a need to include more than one case study into my research project, although I personally think that doing just one in-depth, intensive case study is perfectly justifiable. The decision to do three case studies, however, was not motivated by an effort to compare and contrast the differences among the three different regions. I believe that a larger number of case studies also increases the chances of corroborating the existing explanatory framework and adjusting it to what, at some stages of the research, might look as 'inconvenient' and contradictory information. This has been the main motivation for doing more than one case study and indeed, in the case of this research such a choice seems to have been fruitful. For example, the selection of three rather than one regional case study has shown that the explanation of the diverse impacts of internationalization is far less dependent on 'structural' characteristics such as industrial sector to which my original, critical realist methodology gave a great importance. The diversity of material from the three case studies thus proved to be important in refining my original simple understanding of the key concepts and relations between them as well as in specifying the method of causal

explanation. The greater number of case studies therefore helped to increase the strength and rigour of the methodological framework.

From a more practical side, time was also a limiting factor in choosing the number of case studies. Doing field work abroad in the form of several consecutive visits usually allows a researcher less time for empirical work and this limitation also played a role in deciding that the number of case studies stabilized at three. These three case studies do not pretend to be representative or typical examples, or examples of 'good' or 'bad' forms of internationalization. They try, instead, to explore, explicate and corroborate by empirical material the relationships between the concepts of internationalization, embeddedness and adaptability. In this way the empirical case studies can potentially increase the usefulness and applicability of the analytical framework presented in this thesis.

The selection of regional case studies

The actual selection of the case studies was a four-step process: the first step was to select industrial sectors for case studies and the second one to select concrete regions. The third step involved a selection of enterprises and the fourth a selection of individual interviewees in these enterprises. Much of the third and the whole of the fourth step, however, are described separately for each of the regions in the Appendix.

The first step involved pinpointing industrial sectors with a substantial degree of internationalization. The data on foreign investment according to industrial sectors were actually the only reliable source of information about Western involvement in the Czech industry. From these data, the automotive and electronics sectors were identified as the ones that showed some interesting development. Both of these two sectors are interesting not just in quantitative terms (i.e. large number of foreign investment projects and amount of capital invested), but also because they represent industrial activities regarded as some of the most technologically advanced, as well as some of the most 'globalized' and footloose (Dicken, 1992). Moreover, in post-Communist Eastern Europe these sectors were also generally regarded as those with the greatest

technological lag behind the capitalist West. Also, for this reason, it was important to see what the impact of internationalization was on precisely these two industrial sectors.

This selection was later confirmed by the fact that these sectors were, together with precise engineering, among the three sectors selected by Czechinvest (the Czech state agency for promotion of foreign investment) as preferential targets for foreign investment. Czechinvest, where I established contacts during the first stage of empirical research, also expected that foreign investment in these particular sectors could bring the greatest benefits to the national economy in the form of technological upgrading and an enhanced export performance (Czechinvest, 1995a, b).

The information from Czechinvest, combined with an extensive search of the Czech press and with some regional employment statistics (ČSÚ, 1996, 1997; MIT, 1996), played a key role in the identification of regions that had a dominant position in the respective industries (i.e. automotive and electronics) as well as a substantial degree of international presence. In this way the second step of the selection process was accomplished, since three regions clearly stood out in the way they matched the criteria. Two of the identified regions had a strong international presence and a dominant position in electronics (Lanškroun and Rožnov pod Radhoštěm) and the other similarly in the automotive industry (Mladá Boleslav). These regions subsequently became the focus of the empirical case studies described separately in Chapters Six, Seven and Eight.

The peculiar legacy of industrial development in the Communist Czechoslovakia played an important role in the third step of the selection process, that is, in the selection of enterprises that entered into the regional case studies. As a consequence of this legacy, the large, formerly state-owned enterprises still have a dominant position in the majority of regional economies in the Czech Republic. This was for the most part true also in the three regional economies in question. In each of the case studies, the selected dominant enterprises to a large extent determined the employment structure of the region as well as the kinds or quality of skills and qualifications of local people. Such a local institutional heritage, comprised of large enterprises, often represented the main attraction for foreign partners and therefore played an important role in the process of

internationalization. For this reason, these dominant enterprises represent the main focus of the regional research. Newly established companies - both locally-owned SMEs or new greenfield foreign investments - are of concern in the empirical chapters only as far as their creation and functioning has been connected with restructuring of the large enterprise and thus critical to the performance of the regions analyzed in the individual empirical chapters.³²

Chapter Six analyzes the region of Lanškroun in Eastern Bohemia (see Fig. 1) which until recently was dominated by an electronics company, Tesla Lanškroun, which represented the single most important employer in the region. This company faced serious economic problems in the early 1990s when the whole region was threatened by high unemployment. This negative development was reversed when the local management of Tesla attracted to the region a new greenfield investment initiated by a Japanese-American-British multinational AVX-Kyocera. The initial rationale for selecting the Lanškroun region was to analyze the impact of internationalization in what seemed to be a highly footloose foreign investment. During the field work in the area, however, it became clear that the foreign investor built upon the networks, practices and skills of local actors in a way that made internationalization and the restructuring of this region a success story in the eyes of both the local actors and their foreign partners. This chapter therefore explains how the process of internationalization in this region produced a well integrated and adaptable institutional set-up.

Chapter Seven analyzes the internationalization of the automotive region that surrounds the town of Mladá Boleslav in north-eastern Bohemia. This town is a site of the main plant, as well as the headquarters of the largest Czech car manufacturer Škoda, and the region is comprised of a significant number of firms subcontracting to this company. The whole region represents an example of 'secondary internationalization', that is a process of internationalization, which involved a number of local automotive firms, triggered when the German multinational Volkswagen took over Škoda. The automotive industry and Škoda in particular were, from the outset of Czech economic reform, regarded as the 'national silverware' deserving special treatment and attention.

³²For details of the enterprise selection, as well as the selection of interviewees, see the Appendix.

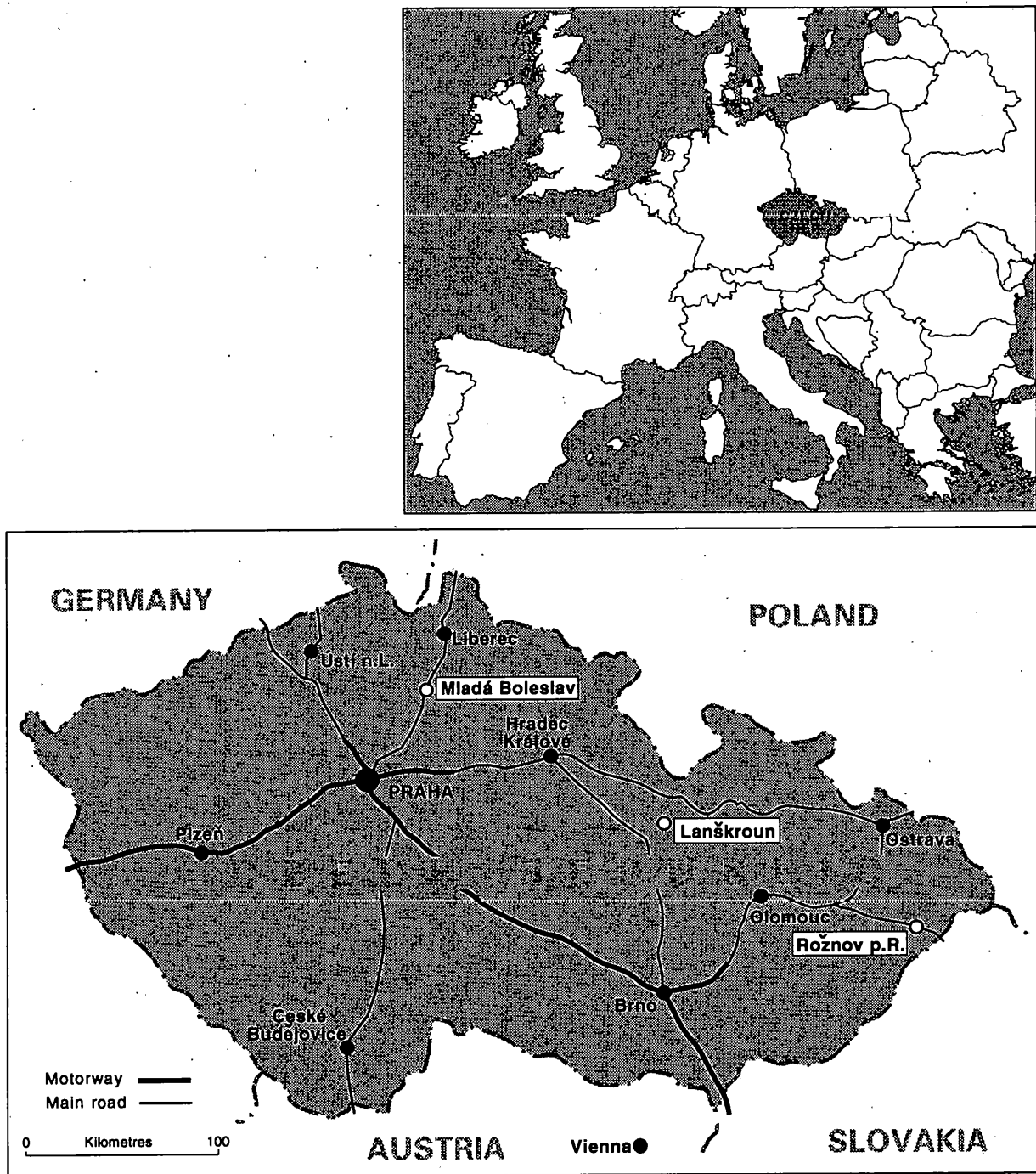


Figure 1: Location of the regional case studies

As a consequence, there has been an abundance of media coverage as well as some research by social scientists into the nature of this investment and of its consequences for Škoda itself (see, e.g. Gowan, 1995; Dörr and Kessel, 1996; Martin, 1998; Pavlínek, 1998). However, substantially less attention and very little systematic research have been devoted to the consequences of the takeover for the role and the position of the local automotive subcontractors affected by the 'secondary internationalization'. Chapter Seven tries to fill this gap by analyzing the largely positive impact of internationalization on the short-term competitiveness of individual firms, but also its less impressive impact on the adaptability of the whole automotive region surrounding Mladá Boleslav.

Finally, Chapter Eight analyzes the process of internationalization in the region of Rožnov pod Radhoštěm in Eastern Moravia, which until the early 1990s was dominated by a huge electronics manufacturer Tesla Rožnov. Tesla Rožnov faced serious economic difficulties shortly after the break up of the Communist economic system and, unlike the previous two regions, this region actually experienced a serious economic hardship since Tesla eventually collapsed and was split into fifteen independent companies. The two main segments of the electronics industry that survived this break up, which were then internationalized independently of each other, are analyzed in this case study. The semiconductor firms were taken over and rescued by a financially strong Western investor, American electronics multinational Motorola, while the vacuum technology firms pursued more autonomous ways to internationalization. The case study analyzes the divergent forms of internationalization of both the foreign-owned and the locally-owned 'successors' of Tesla. It explains how the process of internationalization differed in each of the groups of electronics firms and why in some cases this process has increased the adaptability and competitiveness of firms and yet in others resulted in their dependence on foreign firms.

CONCLUSION: FROM METHOD TO THE EMPIRICAL CASE STUDIES

This chapter has summarized the process of developing the methodological framework that is used in the empirical analysis of the regional case studies. It has been explained how the relationships between the three key concepts of internationalization, embeddedness and adaptability shaped the method of empirical investigation. Similarly, it has also been stressed that the empirical findings shaped and corroborated the theory and gradually refined the methodological framework into one based on the causal analysis of cultural processes. Furthermore, this chapter also described how the case study regions analyzed in the remaining chapters were selected.

The main task of the following three empirical chapters is to explain the differentiated ability of the three selected regions to 'hold down' the process of internationalization and to assess the impact of internationalization on their adaptability. What is common to all three regions analyzed here is their increasing involvement in the international (Western) networks in the period after 1989. Actors in all the three regions thus had to adapt to the new conditions of Western economic rationality based on profit making and on the imperative of competitiveness. The responses were specific to each of the regions and resulted in unique forms of adaptation and 'holding down' of internationalization. What follows, however, is not an idiographic description of regional case studies, but the application of a common methodology to three different regional settings. The empirical chapters reinterpret the developments in the three regions since 1989 and provide a causal explanation of the processes through which internationalization transformed the existing networks, practices and meanings in which local actors were embedded. This is done by studying the interactions between the social and symbolic capital of selected actors, mostly managers of major local firms, who most often acted as mediators (Callon, 1992, 1998) of the process of internationalization. The individual chapters analyze the processes of translation and enrolment through which these actors transformed the existing forms of embeddedness and created new institutional and cultural forms with different degrees of innovative potential and long term adaptability.

All the case studies are presented and structured in a similar way. They start with a theoretically informed account of the regions' past, with a particular focus on the period after 1989 when the process of radical change and internationalization began. The historical section is generally followed by an attempt to substantiate and explicate the theoretical arguments of the previous chapters. This is done by exploring specific facets of the embeddedness of those local actors who played a key role in the process of internationalization. This part of the analysis focused mainly on the transformation of the actors' network heritage, on the analysis of their network interactions (Granovetter, 1985/1992; Swedberg and Granovetter, 1992) and on the transformation of their symbolic powers of recognition and legitimation (Bourdieu, 1977, 1990, 1991). In this manner, the role of internationalization in transforming the action frameworks of selected local actors is assessed.

The remainder of each case study then turns towards an analysis of the cultural processes which created the locally-specific meanings of internationalization. These sections analyze and explain the character of processes through which local actors translated the meanings of internationalization, enrolled others (Latour, 1987; Callon, 1991) in their interpretation and, in turn, transformed the specific system of shared and collectively reproduced practices. On this basis, the empirical chapters strive to explain the different forms of alignment (Callon, 1991) of diverse local action frameworks and the role which internationalization played in integrating or fragmenting the regional institutional set-ups.

Finally, towards the end the case studies, I try to assess whether the process of internationalization transformed the local institutional set-ups in a way that creates innovative understandings and new interpretative possibilities among local actors, as well as increased their ability of collective reinterpretation (Sabel, 1993, 1994; Amin and Hausner, 1997; Storper, 1997; Amin, 1998). In this way, the chapters explain the success or failure of regions in 'holding down' the process of internationalization (Amin and Thrift, 1994b) and assess their chances for locally-based innovativeness and long term adaptability (Grabher, 1993b, c; Grabher and Stark, 1997b).

CHAPTER SIX: THE REGION OF LANŠKROUN: FROM LOCAL RECOGNITION TO INTERNATIONAL COMPETITIVENESS³³

INTRODUCTION

The aim of this chapter, as well as of the two remaining empirical chapters, is to substantiate and inform the theoretical discussion developed so far. This is done by applying the key theoretical concepts to the analysis of regional transformations in the post-Communist Czech economy. The present chapter looks at the impact of one of the largest foreign investments in the post-1989 Czech electronics industry - the Japanese-American-British company AVX - and on its impact on the small regional economy of Lanškroun in Eastern Bohemia. The economy of this region was previously almost entirely dominated by one single large employer, an electronic enterprise called Tesla Lanškroun, whose networks and networks of its management largely dominated the life of the whole area. This, however, was not unusual for enterprises in the Communist period. What makes this particular empirical case interesting is the role which foreign investment played in preserving the local networked heritage and local coalition centred around the key actors responsible for running the enterprise in the past. Although internationalization transformed substantially the action frameworks of actors in the region, the crucial local networks largely survived internationalization and remained concentrated around the same people, albeit dispersed from Tesla into several new firms, including AVX. This fact subsequently allowed the people central to local networks to translate the meanings of internationalization and align them with a system of locally-specific practices and meanings recognized by local actors.

This chapter, then, is more than just an illustration of the way in which the process of internationalization transforms locally-specific forms of embeddedness. It is also an interesting and important example of a concrete form of interaction between the

³³Sections of this chapter have been published previously as a part of a paper entitled *Internationalization, and institutional and regional change: restructuring post-Communist networks in the region of Lanškroun, Czech Republic*, *Regional Studies*, vol. 32, no. 5 (October 1998), pp. 673-685.

networked social capital of local managers and legitimation by Western symbolic capital which was responsible for an unusually successful form of regional restructuring. Although the foreign firm today dominates the region almost to the extent to which it was once dominated by Tesla, the empirical findings suggest that internationalization of the regional economy of Lanškroun helped to create an innovative and adaptable institutional set-up which successfully integrated elements of the new, 'imported' practices and meanings. This chapter attempts to explain the processes through which such a successful institutional set-up has been produced.

The first three sections introduce the companies that represent the focus of empirical investigation and analyze the reasons by which local managers became successful mediators of privatization and internationalization. The fourth section analyzes the process of network restructuring which accompanied privatization. It argues that the crucial and distinct feature of the process of internationalization in the Lanškroun region has been the successful effort of local managers to re-gain recognition and legitimation in the new economic environment without cutting off their local networks. The resulting arrangement subsequently allowed local managers to mediate the international meanings and practices and enrol other local actors in the process of adaptation. The penultimate section analyzes this issue, while the final section documents the important role that the locally-specific processes of translation and enrolment played in mobilizing a large number of local actors, in stimulating the start-ups of engineering and design SMEs and in increasing the adaptive capacity and competitiveness of the Lanškroun region.

TESLA LANŠKROUN IN THE POST-COMMUNIST TURMOIL

The region and identification of firms

The region of Lanškroun is located in Eastern Bohemia near the historical boundary with Moravia (see Fig. 2). The economy of the area has traditionally been associated with light industry. Small scale, cottage-type textile industry existed in the area for

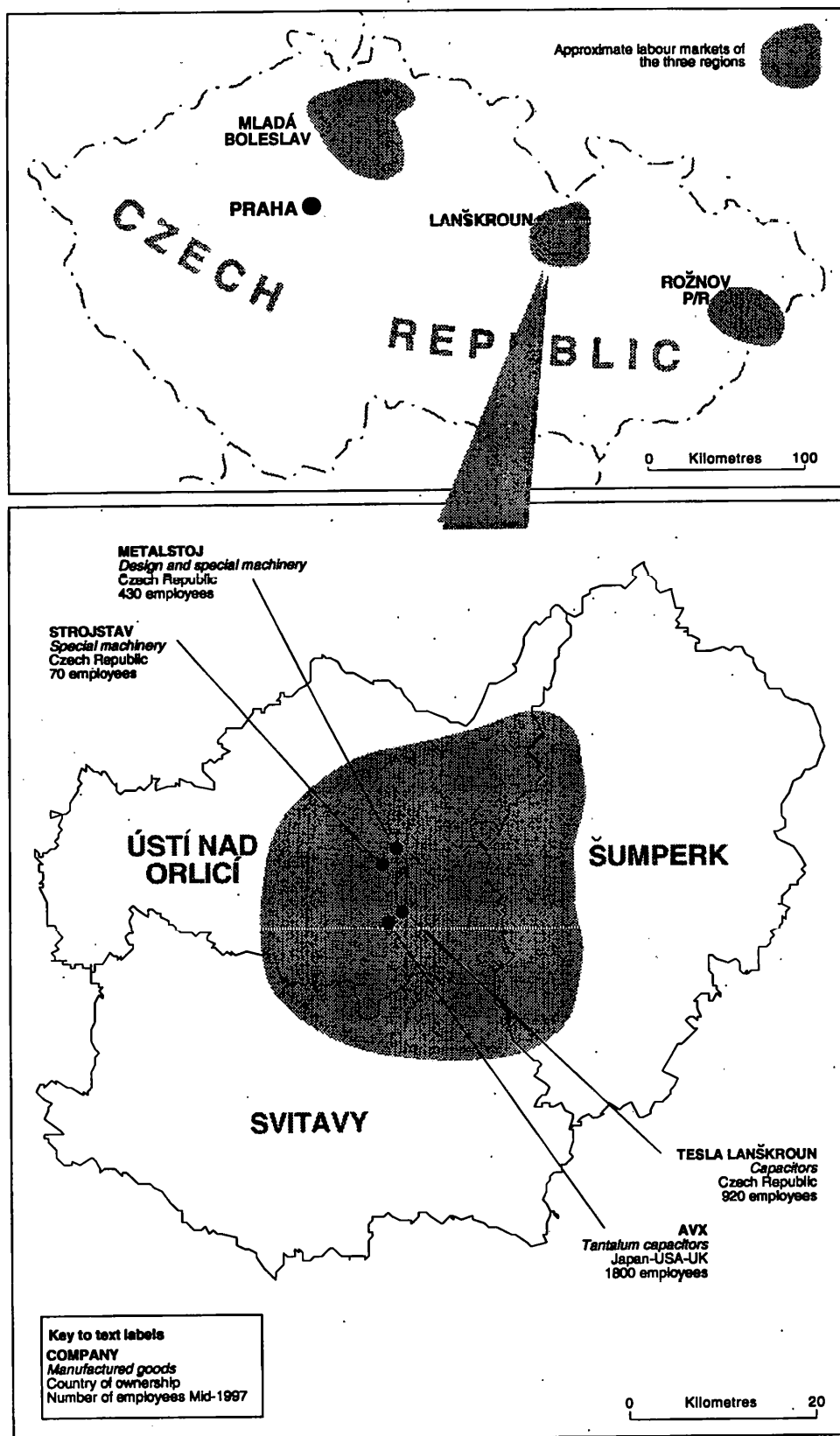


Figure 2: Local labour markets of AVX and its subcontractors in the region of Lanškroun

nearly two centuries, and production of textile machinery and other kinds of engineering also have a long tradition here, backdating from the 19th century. During the first half of this century the textile industry was concentrated in several larger enterprises and the regional industrial base was supplemented by a number of electrical and mechanical engineering firms, thus producing a fairly diversified industrial structure of mostly small and medium sized enterprises. Such was the situation at the end of the World War II.

With the advance of Communism in Czechoslovakia in the second half of 1940s, electrical engineering, and later electronics, came to dominate the region. This time, however, the style of industrialization followed the Communist model with concentration of investment and production in a single huge electrical engineering and electronics enterprise called Tesla Lanškroun.³⁴

The predecessor of Tesla was established in 1944 as a subsidiary of a German firm supplying capacitors to the Nazi army. After the Communist coup of 1948 the firm started to grow even faster by absorbing the technological equipment and production capacity of other smaller factories and enterprises that were nationalized by the regime. As time went on, Tesla Lanškroun became the most dominant enterprise in the area resulting in a typical Communist-style situation of 'one town - one enterprise' (see e.g. Premusová, 1989; Illner, 1992a; Smith and Swain, 1998). The economic fortunes of the Lanškroun regional economy gradually became almost entirely dependent on the successes and failures of Tesla.

In 1990, Tesla employed some 3,500 workers in a town of 10,000 inhabitants and the only other employer of comparable size was a branch plant of a paper mill employing another 800 workers in Lanškroun (interviews). Tesla not only provided jobs for the majority of families in the town and its hinterland but, because it was the only enterprise which also had its headquarters based in the town and its wider region, Tesla was also responsible for provision of much of the local education and social services, including health care, housing, kindergarten, a secondary school specialized in electrical

³⁴The name Tesla was a generic one used by all electronics and low-voltage electrical engineering firms in former Czechoslovakia. This name was introduced during the process of concentration of production in a limited number of large enterprises which followed shortly after the nationalization of industry by the Communist regime. In order to distinguish between individual plants the name of a town or a region was usually added after the name Tesla.

engineering, the local cultural centre, and so on. The enterprise also provided catering for its employees, package holidays in the Tesla-owned holiday facilities in several localities across the country and it provided transport to the factory for its employees from surrounding villages. Throughout the 1970s and 1980s, Tesla Lanškroun became a very important and powerful entity within the organizational structure of Czechoslovak electronics industry. And indeed, thanks to the attention which the Communist regime paid to the electronics industry for strategic (i.e. military) reasons it was a relatively powerful enterprise, even in terms of the whole Czechoslovak economy. It controlled directly three branch plants in the Czech Republic and another one in Slovakia and, together with four other equally big and powerful electronics enterprises, made up a conglomerate called VHJ Rožnov which was responsible for all of the electronics production in former Czechoslovakia.³⁵

Given this legacy of dependence on Tesla the process of identification of major enterprises and actors shaping the economic transformation in the region of Lanškroun logically started in Tesla itself. The aim of this investigation was to find out about the main actors who controlled the enterprise and who play or played central roles in the local coalitions, and who were central to the post-1989 restructuring of local networks. The second major target company to be interviewed and included in the regional case study was the new foreign investor in Lanškroun: the Japanese-American-British company AVX. AVX did not directly takeover Tesla but the investment was closely associated with Tesla both physically, as the firms are located side by side and they even share the same address, and also personally, whereby many former managers of Tesla joined the managerial ranks of AVX³⁶. Since its careful and humble beginnings in the early 1990s, AVX developed into the largest employer in the region. The aim of interviews at AVX was, first, to identify the networks and main actors responsible for the realization of the investment deal; second, to assess the impact of this investment on

³⁵ Another one of the four was Tesla Rožnov described as a case study in Chapter 8.

³⁶ The personal links among enterprises referred to throughout the empirical chapters were reconstructed partly through the interviews, partly through the database of business register at the Czech Ministry of Justice, and partly through the information in the catalogues of major Czech firms (Hoppenstedt Bonnier, 1996, 1997). For details see the Appendix.

the networked social capital of the main actors; and third, to establish the processes which subsequently transformed to the local institutional set-up and its adaptability.

Only later, during the early stage of the field work did it become clear that in order to appreciate fully the changes that internationalization brought to the local network heritage and to action frameworks of local actors, it was equally important also to include in this case study information about the small and medium sized enterprises (SMEs) in the Lanškroun area. These firms and their networks also represent an important part of the network heritage of the Tesla enterprise. The majority of local SMEs were formed after 1989 as splinter firms from Tesla and since then many of their owners and managers have become central to knitting together the local entrepreneurial networks with those of the foreign company and the creation of a specific local institutional set-up. So, in addition to interviews in Tesla and AVX themselves, another three interviews have been added. These together with some secondary empirical material allowed for the inclusion of the importance of SMEs in explaining the success of a new, aligned and internationalized institutional set-up in the Lanškroun region.

Local managers; the key actors of network restructuring

As was previously noted, the management of Tesla Lanškroun enjoyed a relatively powerful position within the Czechoslovak economy. One of the consequences was that they entered the post-Communist period with a rich heritage of networks which included a wide portfolio of customers in the Eastern bloc and also a dense web of contacts and networks with other electronics enterprises in former Czechoslovakia. Unfortunately, as all the old partners elsewhere in Czechoslovakia and especially in Eastern Europe generally themselves ran into serious financial difficulties, much of these networks proved to be largely useless shortly after the collapse of the COMECON market. However, the social capital of networks acquired by the management of Tesla Lanškroun was not limited only to these. This particular management seemed to be quite entrepreneurial and innovative even in the times of Communism, always eager to copy some of the embargoed Western technology smuggled into Eastern Europe at high cost through some very obscure channels (interviews). They also kept an active contact with

the state foreign trade company Kovo, the only means of contact with the West and the only possible legal source of information about Western technology and practices at that time. Another illustration of the pro-active, autonomous approach of the old management of Tesla and their readiness to do more than explicitly demanded by central planning, is the fact that they did not wait for any governmental action in respect of the future privatization. Instead, they have become more pro-active, looking for example for a foreign partner on their own almost immediately after the borders were open, in early 1990, before the post-Communist Government decided its own restructuring strategy. They were apparently quite aware of the shortcomings of their own production technology, keen to learn from their Western competitors and keen to acquire new sales outlets to substitute for the uncertain ones in the East. Yet they were also quite confident of the value of their local networks and local skills and expertise (interviews in AVX and Strojstav).

Thus even while using the required and officially recognized symbolic capital of Communism as the necessary precondition for the effective managing of the firm, the pre-1989 management of Tesla, which consisted mostly of skilled technicians, was primarily interested in further development of the local technology of capacitor production and in catching up with the developments in the West. As a former member of middle management of Tesla who presently holds a position of similar rank in AVX, remarked in relation to former top management of Tesla:

"There were plenty of capable individuals there who got involved [with the Communist party] and did it [managed the company] in a sensible way." (23.6. 1997)³⁷

Thanks to this reputation, and recognition by its employees, the management of Tesla did not face very strong local opposition in the period after 1989. Neither did the management undergo any substantial personal changes as the managers of Tesla were not regarded with suspicion by local people. Their past was more associated with entrepreneurial qualities. Their association with discredited political activities and cooperation with the Communist Party were largely seen as a necessary evil that was a

³⁷For specifications of the interviews see the list of interviews in the Appendix at the end of the thesis. However, the names of some of the companies on the list have been changed in order to preserve confidentiality of interviewees who wanted to remain anonymous.

part of their jobs during those years (interviews and informal discussions with local people). As a consequence of this the managers of Tesla often found it relatively easy to preserve their recognition and legitimation and to transfer them into the post-Communist times, despite their past involvement with the Communist Party. Tesla's management thus remained in the privileged position which made them the key actors in the reorganization of the networked local coalition, as well as in shaping the practices, meanings and forms of recognition in the post-Communist economic environment in the whole regional economy of Lanškroun.

As mentioned already, the management of Tesla started to look for Western partners when the political situation permitted. However, their motivation to do so could be interpreted in at least two possible ways. One is that the management of Tesla felt responsible for 'their' enterprise and the whole community, for the members of their local clientele. The company managers were largely concerned about the well being of the community and did not want to see their old local coalition hit by economic hardship and high unemployment which would certainly have soared if the enterprise closed. This kind of thinking among the managers of Tesla is best illustrated in the following quote from an interview with a senior manager of 'residual' Tesla³⁸ who refused to join AVX and remained loyal to his old company despite initially taking an active role in the negotiation with foreign partner. Instead he accepted a much less rewarding job in the management of ailing Tesla, a job with only a small chance for advancement success and small remuneration. When asked about the motivation to search for foreign partners, a search in which he was actively involved, he replied:

"Otherwise there would have been a rather substantial unemployment in this region [...] It is a foreign firm [AVX] but if it wasn't here these buildings would fall down one day and only unemployment would remain. Even the regional authorities were worried that this [situation] could cause social unrest. [...] So we want to stabilize the enterprise [i.e. secure employment for local people] so that people here don't spit at us and then retire." (11.6. 1997)

The mode of thinking and motivation of these 'old' managers who remained in Tesla even after the arrival of AVX to Lanškroun thus can be described as an effort to satisfy the needs of their local coalition, of local people they knew and felt responsible for.

³⁸The term 'residual' Tesla is used here to describe what is left of Tesla Lanškroun today. The company which still exists under the old name but is much smaller than it used to be before the privatization.

Internationalization to them was just the means of achieving this goal and of securing more economic benefits for local actors.

The second possible interpretation is that the management of Tesla searched for foreign partners and for an association with the generally recognized and accepted Western form of capitalism in order to strengthen their own legitimation and recognition vis-a-vis their local clientele. For this purpose, the Western investors, their practices or even their mere presence could provide the local managers with sufficient backing and legitimation. This approach is well illustrated by a quote from a former manager of Tesla and at present a manager of AVX who stressed the role of Western advisors in formulating and justifying the restructuring strategy of Tesla in the early 1990s.

"In spring 1990 we hired a *wonderful* British consulting company which provided us with a vital self-reflection.[...] They said: "Produce capacitors. That is what you know how to do. Buy all the rest. Get rid of all the extra burden." And so we did it and now we live according to that philosophy." (11.6. 1997, original emphasis).

However, only a few minutes later in the same interview he remarked in relation to the practice of contracting-out:

"Our partners in England contract out even the maintenance of machinery. We keep it in house. It is our own know-how, that's how we do it." (emphasis added)

On this and several other occasions it thus became clear that the local managers who initiated the contact with foreign partners effectively controlled the interpretation of the meanings of Western capitalism and adapted the imported international practices to the specific local conditions and to their own understandings. The last two quotes thus serve as an example of this 'strategic' motivation to internationalize which took the form of a selective acceptance of Western advice in relation to the restructuring of the enterprise and the local networked social capital. Advice by Western advisors in itself had a strong symbolic authority, especially in the years immediately after the revolution of 1989.

However, the meanings of such advice were interpreted and put into practice by concrete individuals, by local managers acting on the behalf of their local community. Local managers acted as local representatives enjoying special recognition, authority and legitimation and thanks to that they were also put into the position of *mediators* (Callon, 1991, 1998) of the meanings of Western practices. They could use such

practices as the new recognized standard of behaviour and as the means of their own legitimation in the new capitalist environment. In this way the managers thus secured a transfer of the control of symbolic capital from the Communist to capitalist environment.

As will become clear later, both these interpretations of management's motivation for internationalization are equally plausible and in fact it is most likely that they operated simultaneously. Not only did the individual members of management interpret the situation differently, but most also used different interpretations and translations of meanings of Western capitalism in different contexts and in enrolling different audiences (Latour, 1987). So ultimately the motivation of local managers for internationalization through linking up with a Western investor was underlined by two partly clashing and partly complementary understandings. One was a sense of responsibility for 'their' locality and local clientele with all the social capital of networks and symbolic power of recognition they had accumulated and controlled there. The second one was the attraction of an alternative symbolic capital of Western capitalism that was promising an even greater recognition and greater symbolic power that could in turn be used for transforming the local system of practices.

Privatization and search for foreign partners

The search for foreign partners was not at all easy. According to a present member of the top management of Tesla, the management in early 1990s approached a total of more than 250 Western firms operating in their particular area of speciality; that is, production of passive electronic components and capacitors in particular. Initially, quite a few of them expressed interest and several of them even signed letters of intent to establish joint-ventures. In the event, only two of these contacts actually materialized into cooperative production which, later, as these manufacturing cooperatives grew, separated from Tesla into independent fully foreign-owned firms.

The search for foreign partners by Tesla coincided with the loss of traditional markets and the inability to sell its low quality products to the West. The resulting financial difficulties were complicated further by the fact that, at the same time, the

enterprise was also included into the voucher privatization program. In the case of Tesla Lanškroun, this privatization scheme had quite unfortunate consequences. The company was privatized in the first wave of voucher privatization and although the management was already at an advanced stage of negotiations with some of the foreign investors, their efforts to reverse the decision of Ministry of Privatization were in vain (interviews). The ownership of Tesla was entirely dispersed to some 10,000 shareholders, both individuals and investment privatization funds (IPFs). At the end of voucher privatization the IPF with the largest holding owned a mere 1.5 per cent of the stock. There were no clear owners, no clear corporate governance, and the management of Tesla was left with decision-making powers as well as the responsibility towards their local clientele.

The dispersion of ownership of Tesla, however, substantially complicated the possibility of engaging a foreign partner in Tesla directly. All potential foreign partners demanded control over any possible business venture with Tesla, but the ownership of Tesla Lanškroun was already established by the outcome of voucher privatization. So instead of a direct foreign takeover the company management had to focus on other forms of cooperation with foreign partners, such as foreign subcontracting and the attraction of a greenfield investor.

On the other hand, the paradoxical but positive side effect of the dispersion of ownership was that it allowed the management of Tesla *de facto* unhindered control of the enterprise and its resources. It gave them the opportunity to hold together the old networked coalition through the symbolic recognition and authority which they had acquired under Communism, while simultaneously trying to secure a foreign partner for Tesla as a possible means of confirming their recognition by association with elements of the new Western symbolic capital. Voucher privatization and the dispersal of Tesla's ownership thus effectively established an environment quite helpful to management efforts to adjust their symbolic recognition associated with their past role as 'leaders' of the local networked coalition to that of symbolic capitalists of a new kind: to mediators of the meanings of international, Western capitalism.

Out of the large number of foreign firms contacted by Tesla's management only two contacts led to the establishment of a new, fully foreign-owned enterprises in Lanškroun. Both of these initially involved relatively simple, labour intensive tasks. Tesla provided the labour force and the foreign partners brought the contracts. One of these cooperative ventures is an Austrian firm Schott, which today employs some 500 employees in a labour intensive process of producing components for electronic transistors. It uses cheap local labour, does not demand very high qualifications and today only cooperates with Tesla on the issues of infrastructure (provision of electricity, heating, sewage treatment and so on) because it operates on land leased from Tesla. Since the beginning, the new venture did not develop much further from its original status as a cheap assembly plant with little integration into local networks and it brings little more than employment opportunities (interview with manager of Tesla Lanškroun, 11.6. 1997).

Much more interesting, however, is the second foreign electronics company which also developed initially from a simple cooperation agreement with Tesla. Through a massive investment by Japanese-American-British firm AVX, this originally small scale project gradually developed into a large independent foreign company which today produces in Lanškroun one third of the world's output of tantalum capacitors.

The first contact between Tesla and AVX dates from April 1990 when AVX started to scan Eastern European producers of electronics components in a search for potential partners. Eventually, they decided to try to cooperate with Tesla, in the first instance by seconding several of Tesla's employees in December 1990. Legally these workers were still employed by Tesla and AVX 'borrowed' them to test them on tasks requiring high labour intensity and low qualifications. In the next year AVX increased the number of 'borrowed' workers and started to assemble capacitors from imported parts. The foreign firm also decided to lease some premises from Tesla and a year later AVX had already 700 directly employed workers in Lanškroun. In May 1994 when AVX opened a new plant next to the old Tesla's and transferred a whole production line from Germany to Lanškroun, the number of former Tesla employees who found new jobs in AVX climbed to just over 1,000.

In the meantime the 'residual' Tesla was reaching the lowest point of its post-1989 crisis. The enterprise had to reduce the number of employees from 3,500 in 1990 to less than 1,000 in 1993. The present management of Tesla, with the help of their old contacts with a foreign trade company Tesimpex,³⁹ tried to establish Tesla as a second- or third-tier supplier of passive electronic components to several Western electronics multinationals (interview with manager of Tesla Lanškroun, 11.6. 1997). However, despite low production costs and substantial improvements in quality, results remained far behind initial expectations. There has been some success, especially from the mid-1990s onwards, yet the managers openly admit that the prospects for Tesla are rather bleak in the face of the severe international competition and the lack of financial discipline shown by many of their customers. Expensive credits and also a lack of experience on Tesla's side in international trade negotiations were mentioned as reasons for worse than expected results (interview with manager of Tesla Lanškroun, 11.6. 1997). The only motivation for continued efforts of Tesla's managers seems to be their sense of responsibility for what is left of the once powerful Tesla company.

However, Tesla's management maintained active contacts with their new foreign neighbour AVX and, during the three year trial period, Tesla played the role of a supporting organization providing training for workers who were later to be transferred from the ailing Tesla to AVX. In this way, Tesla avoided any massive shedding of labour and relied upon AVX's recruitment to offset its own redundancies. The managers of Tesla thus prevented any social upheaval in the region as well as maintained the support of local people, who represented members of their old networked coalition. On the other hand, it should also be stressed that in the beginning, cooperation with AVX also had its shady side as the foreign partner systematically shifted the responsibility and risks involved towards the management of Tesla during this period. The whole of the local community thus had to bear the bulk of the risk associated with the possible failure

³⁹This company name has been changed for reasons of confidentiality. However, this name appears again in the Chapter Eight because the same company was found, quite unexpectedly, to be involved also in some of the electronics companies in Rožnov (see Chapter Eight). This fact only confirms a great degree of personal interconnectedness between enterprises which formerly belonged to the same VHJ.

of cooperation and with AVX's potential withdrawal. However, as we will see in the following section, the risk eventually yielded a benefit for the locality.

AVX AND LOCAL NETWORKS: A WAY TO COMPETITIVENESS?

The role of local managers: securing recognition and adjusting local networks

At the time of the field work in the summer of 1997, AVX employed some 1,800 people directly in its new, state-of-the-art plant, and according to estimates, at least the same number of people indirectly in firms that subcontract to AVX (AVX, 1997). The scale of its local operations is now such that the local labour pool is almost empty, and the company has had to bus people in from as far as 50 kilometres away. The future expansion in situ has been postponed because of the local shortage of labour.

The production of capacitors, however, employs mostly medium qualified, cheap labour. Although AVX has a small R&D department in Lanškroun too, most of the jobs it provides locally are of a routine kind on the assembly line. The effect of AVX's presence in the region might thus appear similar to most other foreign labour intensive branch plants in other locations in Eastern Europe (Sadler and Swain, 1994; Swain, 1994). I believe, however, that the case of Lanškroun is different because of the way the activities of AVX have been integrated with the networks of Tesla's management and through them also with other local economic activities.

A crucial aspect at the early stage was the fact that AVX decided to entrust people from the management of Tesla with the organization of the venture. The clearest example of this is the fact that a former general manager of Tesla became a general manager and a member of the executive board of AVX plant in Lanškroun. Clearly, he brought all his networks and contacts with the local community to the new position with him. This choice of new general manager was effectively a formal sign of legitimation by AVX and of its recognition of the importance of local managers and their business and networking skills. Such a decision provided the newly promoted local actors with an opportunity to base their recognition on the association with what was locally

regarded as the new and legitimate system of practices of Western capitalism. By allowing local people to achieve recognition in this way AVX created an enormous motivational stimulus for local managers. But perhaps even more importantly it established conditions conducive to the exploitation of local networks and expertise.

This period provided both the management and employees of Tesla with a mixture of opportunity and threat. The position of management could have been endangered if they failed to deliver performance required by foreign partners. Should the foreign firm withdraw, the local managers would lose both their new recognition and privileges. On the other hand, should the local managers prove capable of meeting Western standards, the foreign partners would stay and the local mediators of Western capitalism would further increase their symbolic power of recognition. The new sources of symbolic power could bring benefits far greater than anything the Communist economy could ever have offered them: far higher financial remuneration, much greater freedom to realize their potential qualities without the hindrance of Communist party intervention, and perhaps even recognition on the international scale, in the AVX headquarters in Britain and Japan.

In other words, AVX allowed the newly established local economic elite sufficient space to mobilize their symbolic and social capital accumulated during the Communist period and adjust it to the new situation. And the new local managers of AVX made good use of this opportunity. For example, the local management fulfilled the production targets planned by AVX headquarters for 2 years in just 10 months (interview with manager of AVX, 11.6. 1997). This helped to gain the appreciation of the foreign partner and also made AVX look again and closer at the value, reliability and usefulness of local skills and networks such as contacts with local subcontractors, local R&D sources, and good contacts with local and district administration. AVX thus started to realize that the networks, practices and meanings associated with the action frameworks of local actors were a valuable asset which could best be exploited by AVX's association with local managers. This, in turn, strengthened the position of Tesla's management in relation to AVX and increased the self-esteem and confidence of

local actors. A good illustration of this comes from a quote of a British AVX executive at the opening ceremony of the new plant in Lanškroun in May 1994.

"There are places with lower labor costs than the Czech Republic. But if you take the skills and the education level, we found that this has been the best place we can come to." (quoted in a company brochure after the newspaper *The Prague Post* without specifying the date)

Also, a Czech member of AVX management, when asked about the reasons for the success of the venture mentioned five major reasons, three of which were directly linked to the *preservation of old networks* in the locality. These were first, the industrial traditions and presence of qualified and skilled workers and technicians (which the management of Tesla represented and were able to identify), second, the support of local engineering firms owned by the former employees of Tesla (the contacts with whom were furthermore best secured through the networks of Tesla's managers), and third, a supportive local administration (also supportive because of their close ties with the managers).

Equally, the ordinary employees of Tesla faced substantial opportunities and threats during this period. The threat of loss of employment and economic hardship in the event of Tesla's collapse were largely out their control. They had to rely on the local managers as the representatives of their local coalition and hope that in exchange for loyalty the managers would do their best to secure an acceptable solution to the crisis. On the other hand, should the deal with foreign partners be successful, many local workers felt that they could also achieve better appreciation of their skills and abilities. The new symbolic environment of capitalism and its form of rationality seemed better suited to such appreciation and could possibly bring them greater recognition too. Sometime around 1992, that is as the situation in Tesla became critical and the negotiations with AVX started to look promising, many former employees of Tesla started to leave the company. Most of them transferred directly to AVX, but some, especially skilled designers and technicians who felt undervalued in Tesla and were entrepreneurially minded, started to establish their own businesses (interview with a middle manager of AVX, 23.6. 1997).

The production of capacitors requires a fairly sophisticated, highly specialized and customized purpose-built machinery. Their construction is a classic small batch

production process. This machinery had also been produced by Tesla in the past and although it did not quite meet the Western technological standards in 1989 it was about 2-3 times cheaper than the imported machinery (interview with owner and manager of Strojstav, 19.6. 1997). As soon as the borders were opened to embargoed goods after 1989, it became clear that some of the highly qualified people of Tesla were very quick at learning from their Western counterparts. Small start-up companies founded by Tesla's former designers and technicians started to appear everywhere around Lanškroun.

Today there is a whole range of firms in Lanškroun and the surrounding region that were established either as splinter companies separated off from Tesla during its privatization or as new start-up firms founded by people who left Tesla. They include not just the production of customized machinery for the production of capacitors but also the manufacturing of spare parts for such machinery, the design engineering of new machinery and other related activities (interviews; database of the Ministry of Justice). These firms quickly caught up with their Western competitors in quality standards while still keeping the prices substantially lower. Owners of these firms managed to bring together some of the most skilled workers and designers of old Tesla and in a short time they were able to beat their Japanese competitors in a tender for a supply of machinery to AVX. AVX spends some 200 million Kč annually⁴⁰ on the purchase of machinery in the whole of Czech Republic. According to one of the interviewees most of this sum is spent directly in the tiny economy of Lanškroun region (interview with manager of AVX, 11.6. 1997) which makes AVX responsible for a substantial local spin-off effect.

It is, however, not just the supplies of machinery that produced spin-off effects in the regional economy. There is a total of 131 firms of all sizes (including self-employed individual entrepreneurs with no other employees) in the region of Lanškroun who subcontract to AVX (AVX, 1997).⁴¹ Some 30 of these firms specialize in machine

⁴⁰This is nearly 4 million pounds which represents a huge sum in the country where average monthly earning in 1997 was less than 200 pounds and the low-qualified employees of AVX in Lanškroun were, according to a company brochure, earning just some 100-150 pounds per month.

⁴¹For some idea of the quantitative importance of this figure it can be compared with the total of some 150 firms and self-employed entrepreneurs registered by the database of Czech Ministry of Justice for the town of Lanškroun alone. This, of course, is a smaller territorial unit than the whole region for which the

and design engineering and other activities directly related to the production of customized purpose-built machinery. The rest of them provide everything from catering, security and transport to locksmithing and construction works.

The success of such small and medium sized firms in the region of Lanškroun can, in part, be attributed to individual entrepreneurs and their personal entrepreneurial abilities. But their common feature, and often a decisive force behind their success, was the opportunity provided by AVX. This opportunity, on the other hand, is closely associated with the fact that the responsibility for the rearrangement and restructuring of networks of social capital in the region, although done on behalf of AVX, was left to the competence of local managers. Without the previous mutual acquaintance of owners of newly established firms and the management of AVX (consisting of Tesla's former employees), the benefits to the local economy in the form of spin-off effects would never have been realized to such an extent. Clearly, the success of small local companies in establishing their networks with AVX is linked to the knowledge of potential production linkage. And, as we shall see later, the role of local managers, their detailed knowledge of the local networks and of the action frameworks of other local actors proved to be very important for the success of local subcontractors and for the character of local processes of translation and enrolment.

The particular form of interaction and intermingling of the Western symbolic capital with the social capital of the key economic actors in the region of Lanškroun described above is, I believe, what makes this particular case study quite an unusual and perhaps unique example of internationalization. AVX imports all major components in the production of capacitors and uses its plant in Lanškroun as a mere assembly plant, which, at first sight, resembles a cliché of foreign investment in Eastern Europe (Gowan, 1995). Nevertheless Lanškroun does not represent just another example of a region where the strategy of a foreign investor created a disembedded regional economy with limited local linkages and with negative consequences for regional adaptability (see e.g. Grabher, 1994, 1997; Sadler and Swain, 1994).

number of suppliers is given. However, this figure provides at least some measure of the importance of AVX for the regional economy of Lanškroun.

One feature that the case of Tesla Lanškroun and AVX shares with such accounts is the fact that local managers used their liaison with a foreign partner to secure their positions and also to use the disembedding effect of internationalization (Smith and Ferenčíková, 1998, Smith and Swain, 1998) both to free themselves from local resistance and from various and often excessive demands for help and support from the members of their old networked coalition (Možný, 1991). The fact that they succeeded in securing such recognition, even at the national level, can be demonstrated by the character of the opening ceremony of new AVX plant in Lanškroun in May 1994. The aim of this ceremony was to demonstrate and confirm the success of local managers in 'building capitalism' and it clearly served the purpose of strengthening their recognition. The ceremony was attended by representatives of nationally distinctive bodies, emblems of the new economic reality of Czech Republic, such as Ministry of Industry and Trade, several major Czech banks, and most of all, by the presence of the Czech Prime Minister Václav Klaus who applauded the efforts of Lanškroun managers in securing a major foreign investment deal without any request for state support or tax holidays for foreign investors (interviews, AVX, 1997). Equally important, however, was the participation of local actors, of members of the local municipal council and district council, local schools, and owners of local firms subcontracting to AVX (AVX, 1997) which clearly indicated that the disembedding effect of internationalization had been limited in extent.

The major and important difference of Lanškroun in comparison with cases described by Grabher (1994, 1997) or Swain (1994) in former GDR and Hungary is that the Czech managers in AVX did not turn the disembedding effect and the symbolic power of their own recognition into a simple reception of Western practices and their blind implementation on the behalf of their foreign partner. The former managers of Tesla Lanškroun who were promoted to managerial posts in AVX did not use the power of symbolic recognition associated with their new positions simply to shed their local network heritage as a useless legacy of a stigmatized past. Instead they used the new symbolic power in a way that enabled them to coordinate the process of selection of elements of the old local networks and used them in the process of creating locally-

specific translations of the Western practices and meanings. They did not replace their old practices and routines with entirely new ones imported from the West. Rather they used elements of Western practices and routines, blended them with parts of their old networks, routines and practices and reconstituted them into a new system of practices and meanings recognized by other local actors.

Internationalization and transformation of local networks and practices

So far the changing forms of embeddedness of the main economic actors in the region of Lanškroun have been described. It has been shown that it was the process of interaction between the local networked social capital and the Western symbolic capital which was responsible for such a change. In this section the discussion will turn to the consequences that the locally-specific interactions of social and symbolic capital have for the action frameworks of local actors.

It becomes clear from the previous discussion that the positions of the main actors of economic life in Lanškroun have changed quite substantially since 1989. Some of the former managers of Tesla acquired important positions in AVX, other former managers, technicians or workers of Tesla became owners of new local firms and all of these people had to adjust their practices, perceptions, and understandings in order to make them compatible with those of their Western partners. Even the managers who remained loyal to Tesla and stayed in its managerial ranks had to change their practices and adjust them to the new economic environment, to new demands by new customers and the new rules of capitalist financial discipline.

All these changes were closely connected with an increase of networking activity, with the activation of large number of networks that all the main economic actors in Lanškroun were able to mobilize or newly construct. This sudden surge in network-building and network-mobilizing activity was also responsible for an influx of a large number of new Western practices and routines. These combined with the older, already present practices, which began to produce new meanings, and thus transform the action frameworks of local actors. The post-Communist change in Lanškroun associated with internationalization can thus be understood also as an increase in local cultural

complexity, as the hybridization (Hall, 1995) of a rather sterile cultural environment of Communism and an increase of variety of local action frameworks which had to co-exist and somehow accommodate their differences. What is crucial, however, from the point of view of this analysis is how exactly were the differences between practices, meanings and understandings negotiated in the context of a local culture. That is, how did the local mediators align their differences, translate the new meanings and enrol other local actors in the interpretations of facts, and what consequences did this process have for the adaptability of the regional institutional set-up.

It has been argued in Chapter Two that a major precondition for regional adaptability is the existence of local mediators who, through a successful process of translation, enrol other local actors and align and adjust their different interests and understandings (Callon, 1991). Such translation with a local 'reach' allows for a collective adaptation of local actors which also leads to a mutual redefinition of actors and a reinterpretation of their action frameworks (Murdoch, 1995; Storper, 1995; Storper and Salais, 1997). This process, in turn, is likely to create new interpretative possibilities for local actors as well as innovative forms of action (Sabel, 1993, 1994). It has also been stressed in Chapter Two that the adaptability of regional economies can be threatened if the mutual adjustment of actors' action frameworks becomes excessively hegemonic and closed-off from alternative interpretations of the reality and that such hegemony can eventually lead to a local institutional lock-in (Grabher, 1993b, c).

The empirical analysis in respect to these issues attempted to establish the identities and collective self-definitions of economic actors interviewed in the area of Lanškroun. It analyzed their attitude towards other firms, especially to their Western partners or main Western customers who represented the main local power in the process of internationalization, towards their locality or region and other local institutions (local and regional governments, chambers of commerce, and other possible bodies) and also analyzed their understandings of the market environment.⁴²

All the interviewees both in AVX and Tesla as well as in the small and medium sized subcontractors of AVX, expressed highly ethical stances in relation to the market.

⁴²For details of interview structure see the Appendix.

The majority of interviewees regarded the market more as a partnership rather than as a competitive struggle. Also, in respect of customer and supplier relations the interviewees showed a high appreciation of relations based on honesty and mutual trust and stressed the importance of ethical behaviour and long-lasting commitments to a successful cooperation. Rather surprisingly this attitude was found even with the management of 'residual' Tesla which has already experienced the quite unethical approaches of several new Western customers. Despite this, the interviewee confirmed the continued commitment of his company to the ethical stance which seems to be strongly rooted within the system of meanings and practices recognized by local actors. This fact was nicely summarized in the words of one of the AVX managers in respect to his firm's relations with their customers: "This is a situation where you mustn't cheat. [...] And we don't even dream of trying any tricks!" (11.6. 1997).

Similar opinions were expressed even more strongly in the case of relations between AVX and its local subcontractors, where the interviewees stressed the importance of old personal friendships and shared working experience in Tesla which allowed actors to communicate within a system of shared meanings and understandings which made possible easier resolution of potential conflicts. Such was the case with an interviewee who owns a local machine-building company, Strojstav, which supplies AVX with single-purpose machinery:

"It helps, definitely, that we know people there personally. [...] Cooperation in relation to improvement of the quality of machinery is our everyday business. Both with their [AVX's] production [department] and their designers who say for example: "these parts here don't last very long. I don't know what's the problem with them." And so we try to solve the whole problem in its complexity. That's the standard [form of communication]. And that's what we value." (19.6. 1997)

When asked about the intensity of communication with AVX the same interviewee replied:

"That's our daily routine. Yesterday it was until midnight because of the new machine [which this firm is designing and producing for AVX]".

It does not come as a big surprise, however, that people who spent many years working together in one company preserved their networks, contacts and friendships which outlived the privatization and reduction in size of Tesla. These days it is precisely these networks, and the practices, routines and meanings associated with them, that make the

interaction and coordination between local firms smooth. Despite internationalization of some of the networks, the managers and owners of local firms between themselves still preserved a system of shared understandings and expectations based on the trust produced through the past translations and alignment of their action frameworks.

The importance of such old acquaintances and trust produced through an alignment among local actors becomes even clearer from the experience of one of middle managers in AVX who is responsible for the start up of a second AVX plant at another location in the Czech Republic. He complained bitterly about problems encountered in this locality in comparison to Lanškroun, about the difficulties in communication with people that he has to work with there, people who do not understand what he means and do not respond in the ways he expects them to (interview with middle manager of AVX, 23.6. 1997).

In Lanškroun such networks, practices, and the understandings and meanings associated with them, survived the disintegration of Tesla and the reorganization of the regional economy. The former employees of Tesla dispersed into several independent firms and as a consequence the practices they recognize have usually diverged as did the structure of their networks. Nevertheless, these people remained able to negotiate and adjust their diverse systems of meaning and practices with those of other local actors, to communicate with each other and to retain a sense of a shared collective identity. What seems to be even more important than this, however, is the fact that the local networks based on old friendships and shared meanings have also been enriched by parts of the international networks and by the particular interpretation of practices and meanings brought to the region by AVX. One of the interviewees commented on this process in the following way:

"People meet with each other. [This includes] not just those from AVX [i.e. Czech employees of AVX], but also people from England. They communicate with our people [i.e. employees of local subcontractors of AVX]. [...] Our people meet with the English, young people have the opportunity to learn the language, they go to England [the European headquarters of AVX] and even further to the world and they learn." (interview with an owner and manager of Strojstav, a firm subcontracting to AVX, 19.6. 1997)

The internationalization of the region was thus not restricted only to the investment by AVX in the plant assembling capacitors. Instead the international networks that AVX brought were used by the Czech management of AVX and translated into locally-

intelligible and comprehensible practices and meanings spread through local networks. In this way the new, international practices and meanings were accommodated also into the action frameworks of other local firms and individuals and helped them to adjust their old practices and routines to the process of internationalization. One of the interviewees described at length how, at the time of the collapse of Tesla and at the beginning of AVX's operations in Lanškroun, many former designers of Tesla were uncertain about their future and doubtful whether they could survive if they set themselves up as an independent firm (interview with a middle manager of AVX, 23.6. 1997). According to another account, many owners of the new start-ups were persuaded by their former colleagues who became managers in AVX that the success of AVX could also bring prosperity to their firms. The interviewee further described that eventually, under the influence of local managers, AVX took a strategic decision to source locally:

"They said: 'let's try it! Why shouldn't our people be capable of producing the special machinery when they had been doing it in the past? Why should they not be able to do it now?' And so they did give it a go and we are happy that we succeeded to establish ourselves as their supplier. [...] And today one third of the technological equipment in their [AVX] production hall is of Czech provenance. (interview with a manager and owner of Strojstav, 19.6. 1997)

Many more local firms and their owners were enrolled in a similar manner in the process of adaptation to the particular interpretation of internationalization mediated by local AVX management. The interests, skills and capacities of local actors were brought to bear on the overall success of the AVX investment and to contribute to the mutual satisfaction of the foreign investor and of themselves.

The last quote as well as other interviews with former leaders of the local networked coalition suggest that the Czech management of AVX succeeded in building upon the existing sense of community which characterized the local institutional set-up inherited from the Communist period and reconstituted it into a richer one constructed out of a mixture of networks, practices and meanings which are both inherited from the past and 'imported' from the West. To paraphrase David Stark (1992), it is not an institutional set-up built on the ruins of Communism but *with* the ruins of Communism (Eyal *et al.*, 1997). The new practices, meanings and understandings are 'held together' by a particular translation of internationalization represented as a new common 'project'.

The aim of this project was to adapt to the principle of profitability in a capitalist economic environment which, if successful, could benefit all the actors concerned. Several interviewees stressed that actors have to constantly assess each other in order to accomplish this project and to satisfy the new standards set by the foreign partner. At the same time, however, the common past and the existence of shared meanings produced through the process of past translations (Callon, 1998) makes local actors open to trust each other's interpretations (Sabel, 1993) and 'holds together' their diverse action frameworks.

The importance which the Czech managers of AVX attached to their project of adaptation to Western capitalism and the reinvigoration of the Lanškroun economy with the help of AVX is clearly expressed in the following quote:

"The only thing I fear is that we ourselves could spoil it all. I am really worried when I see lack of discipline, when [our] people don't realize how a big thing is at stake here." (interview with a former manager of Tesla, now a manager in AVX, 11.6. 1997)

The local managers of AVX enrolled with substantial success many other regional actors in this project. They allowed them to take part, to interact and communicate with the foreign partners despite often conflicting interests and attitudes to foreign investment. Some of the more conservative of local actors, such as the present management of the 'residual' Tesla, expressed some reservations about the limited benefits AVX brought to the region and they (rightly) described it as a branch plant. Even these people, however, regard the efforts of their former colleagues who left for AVX with respect and see the presence of AVX in Lanškroun generally in a positive light:

"The disadvantage of foreign owner is that at the end you only have here the operators who work on the machinery. And although they are skilled workers the intellectual property lies elsewhere. [...] When the cost [of labour] rises they will move perhaps further East. But when they leave one day the factory will still be here, no one will knock it down. [...] Perhaps then they [AVX] will bring something else here, something more sophisticated. But this is not a thing to worry about. [...] But it [the investment by AVX] was a plus for the region, it helped the region as a whole." (interview with a manager of Tesla, 11.6. 1997)

This quote brings us back to the notion of regional adaptability from the other side. So far, it has been demonstrated that the meaning of internationalization mediated by local AVX managers was inclusive, had a good local 'reach' and enrolled most of the key economic actors in Lanškroun region. It allowed them to take part in the process of

adaptation which helped to preserve a shared, trusting attitude among local actors and aligned their different action frameworks. This process which closely resembles a perfect translation, as described by Callon (1991), smoothed mutual communication among actors and the mobilization of their networks. These are all typical features of a successful way of accommodating a new impulse, as well as a process of adaptation which produced an aligned and integrated local institutional set-up.

The above quote, however, brings to attention the risk of overdependence. It highlights the possibility of the excessive hegemony of one single interpretation which might make the action frameworks of local actors and their firms far too similar. And indeed, as described thus far, the action frameworks of firms in Lanškroun region seem to be constructed around one single shared project tailored narrowly to the subcontracting needs of AVX. This would come perhaps as no great surprise in the case of Lanškroun with its history of a one-enterprise regional economy, where the majority of distinct and recognized economic actors share a common history and a heritage of networks and practices that they all acquired as employees of Tesla. In such a case, the possibility of AVX withdrawing from the locality, mentioned by the present-time manager of Tesla (although unlikely in the near future) could pose a similar threat to the locality as the crisis in Tesla a few years ago.

The AVX assembly plant could indeed move to a cheaper international location and only then would the overdependence of the local economy on AVX and its institutional lock-in become visibly acute and obvious. In the present day, by any estimation, such a decision would hit the regional economy very seriously and suddenly make many of its institutionalized practices and routines obsolete. This can be said with a substantial degree of certainty, despite the fact that it is usually difficult to assess the exact reasons and mechanisms of regional institutional lock-in before it actually occurs (Grabher, 1993b, c). However, despite the risks of overdependence and institutional lock-in, the evidence gathered in the Lanškroun region seems to suggest that even if AVX decided to leave today, there is already a seedbed of an autonomous locally-based innovative economic activity in the region. The final section of this chapter shows how the group of local subcontractors of AVX in the sector of design and manufacturing of

specialized machinery potentially represent a source of long term adaptability for the Lanškroun regional economy.

Internationalization and adaptability

Firms producing specialized customized machinery were set up in and around Lanškroun several years ago, often with the hope that the foreign company would also provide work for them. In some cases this hope was even stimulated by local AVX managers who realized the potential mutual benefits in local sourcing (interviews with middle manager of AVX, 23.6. 1997 and with manager and owner of Strojstav, 19.6. 1997). The success of these firms, which led to the satisfaction of their owners, as well as of AVX, often surprised the owners themselves. Today, however, the owners of local machine-building firms are already aware that their products and abilities are demanded and valued elsewhere in the world. Furthermore, they have come to realize the risks associated with overdependence on just one customer. AVX still remains their main customer, but they are systematically trying to diversify their customer base.

The case of one particularly successful company producing customized machines is illustrative. Their success is largely due to the extensive networks of its owner, a former 1980s general director of Tesla. This man fully exploited all the contacts and qualifications he accumulated in all his previous jobs in Tesla where he first worked as a designer, later as a head of department responsible for design and production of specialized machinery, then as a director of Tesla Lanškroun itself, and in the late 1980s as a director of the whole VJH Tesla Rožnov. The contacts this man has with other electronics companies in the Czech Republic and Slovakia and also with people who worked previously in a state-owned foreign trade company helped in further diversifying away from AVX and even to the international expansion of his firm. This firm is no longer entirely dependent on AVX as its only customer. Approximately 50 per cent of the firm's production is represented by supplies to AVX, but the rest goes to other mostly foreign customers, either to multinationals established in the Czech Republic or to customers in the sophisticated Western markets such as Philips or Siemens. Nevertheless, the relationship to AVX, which is largely based on the long-

cultivated trust and old friendships of former colleagues from Tesla, still remains vital and very stable.

Similarly, in the relations between different local firms that subcontract to AVX, old friendships and acquaintances seem to play an important role. This is well illustrated by the fact that the sharing of orders between competitors when one firm runs out of its production capacity is a fairly common practice, as two quotes of managers of local SMEs confirm:

"When we need to produce something and we know [that we can't manage]... or if the production of what's demanded [by the customer] is problematic, say, it would slow down production in other departments, or we don't have the production capacities ourselves, we give it to someone else in here. But that's normal. Classic cooperation, as everywhere here in the area." (interview with a manager of local machine-building firm Metalstroj, 17.6. 1997)

"We had a contract [...] We couldn't finish it in time on our own. And so Elektrostroj [changed name of another local firm] helped us. They are trustful partners. I brought the contract, they did the job, we supplied it [to the customer]. Both sides were happy. And they go: "Mr. Novák [changed name of the interviewee], what will be next? Can we count on it [future cooperation]?" And I go: "if, for a change, you have something [a contract] next time, sure, I would also be [interested]..." The price which I agreed for this equipment and which I consulted with Elektrostroj [name of the other local firm], that's exactly what they got. So we didn't keep not a single per cent for mediation to ourselves. That's what I call trustfulness." (interview with a manager of local machine-building firm Strojstav, 19.6. 1997)

The dense web of networks among the several dozen local machine-building and design firms in the region, on the one hand, thus represents an important way of pooling local resources, skills and competencies. On the other hand, it also represents the means by which new practices and techniques, often resulting from interaction with foreign partners and customers, are spread locally. The circulation of information about possibilities of new contacts, supplies, and practices among these firms seems to be facilitated by the existence of a substantial degree of cross-ownership among them, even among potential competitors. In some cases it is even the local managers of AVX who have stakes in some of the local SMEs that subcontract to AVX (interviews, database of the Ministry of Justice). This fact is likely to increase the inflow of information about the changing demands of AVX and its competitors, as well as to bring a greater variety of practices and to sustain the reinterpretation of their meanings by the local SMEs.

Even the problem of R&D for local engineering and machine-building SMEs appears to have been solved by subcontracting from other small local engineering design firms. These are mostly owned by former designers of Tesla who at present work predominantly for AVX on a subcontracting basis. However, the contracts from local

machine-building firms and from other customers are increasing in importance for them too. The numerous pre-1989 contacts between Tesla employees and several Czech technical universities and other research institutions are also now used as a source of R&D by local machine-building firms.

To summarize from what is inevitably an incomplete picture of the production of customized machinery in Lanškroun, it seems to be the case that AVX not only provided these firms with the opportunity to work as its subcontractors. It also, by appointing local people to managerial posts in the AVX plant in Lanškroun, provided the local managers with the time to mediate the meaning of internationalization locally. The attitude of AVX gave local managers an opportunity to encourage and reassure the local engineering design and specialized machinery subcontractors that they could establish themselves as independent specialist producers in their respective sectors. When asked whether AVX really played such an important role in reinvigorating the regional economy, one of the interviewees, an owner and manager of a successful local manufacturer of customized machinery, expressed his opinion on this issue in a clear and almost emotional way:

"Oh definitely. And we value that highly." [phone call] "This kind of entry of [foreign] capital is exactly the one that would benefit the whole of this republic [Czech Republic] and would help us [the country] the most. And it is bilateral for us and the foreign firm. [...] We say: thanks God that AVX came here. They give us work and feed us." (manager of Strojstav, 19.6. 1997)

It seems that the particular *translation of the meanings of internationalization* in the local context enrolled the owners and managers of local SMEs in a common effort to use internationalization as a means of strengthening the regional economy and bring benefits to local actors. In combination with a particular local network heritage, the processes of translation and enrolment also helped to establish a dense web of networks of specialized machine-building and engineering design firms. The process of internationalization thus helped to preserve much of what was useful in the old networks and the local expertise, know-how, skills and traditions, yet also helped to enrich and diversify the variety of practices and networks within the region.

The local SMEs seem to be on the path to establishing themselves as independent and self-confident business entities. Several of the local producers of

customized machinery were particularly successful in using the international contacts to transform their action frameworks through integrating different parts of their old networks, practices and meanings with the ones of their Western partners and customers.

The elements of old action frameworks which seem to be valuable now as before are an open and trusting attitude towards other members of local networks and the ability to talk through problems. These characteristics increase the chances that new impulses will stimulate a collective reinterpretation of existing practices. Moreover, the positive institutional features are also combined with detailed knowledge and specific skills related to the manufacturing of capacitors, as well as links with sources of R&D, foreign trade companies and other actors in the locality which, together, translate into innovative solutions and ways of coping with problems.

The practices and meanings which local SMEs adapted from their Western customers were also numerous. They were, for example, a more disciplined approach to the production process and its organization, a precision of manufacturing and the importance of the quality standards, and closer attention to marketing and formal ways of communicating with customers (interviews).

Despite the co-presence and an increasing variety of networks, practices and meanings in the locality, all the major local economic actors still actively communicate with each other and mutually shape each other's practices, expectations, meanings and understandings. In other words, they negotiate and align the differences between their respective action frameworks. The result of these continuous adjustments seems to be a well integrated, institutional set-up which, by mixing and adjusting the 'old' and the 'new' institutional forms, also creates innovative interpretative opportunities for local actors (Sabel, 1994; Grabher and Stark, 1997b).

All the local actors interviewed seemed to be aware of the necessity to remain open and to accommodate new impulses from the external environment. Moreover, their past experiences show that they have been able to translate and accommodate them in their action frameworks, as well as use them to increase the integration of the local institutional set-up. If this proves to be the case in the future, the risks of regional

institutional lock-in may be avoided even if AVX does decide to move elsewhere in the future.

CONCLUSION: ON THE WAY TO COMPETITIVENESS

This chapter has analyzed the process through which locally-specific form of embeddedness in the Lanškroun region was transformed by the arrival of a foreign investor. What makes this particular region interesting, and indeed, probably quite rare in Eastern Europe, is the fact that the process of internationalization and the subsequent accommodation of Western practices into the action frameworks of local actors produced what seems to be an adaptable and competitive regional institutional set-up. In this sense the case of AVX investment in Lanškroun contradicts some earlier research which questioned the positive role of internationalization in the reinvigoration of regional economies in Eastern Europe (Grabher, 1994, 1997; Sadler and Swain, 1994; Swain, 1994) or which put in doubt the usefulness of foreign investment in post-Communist countries altogether (Gowan, 1995). The empirical findings in the region of Lanškroun go against the stereotypical image of Western investors who ignore the potential of the local network heritage.

The chapter argued that the success of the Lanškroun regional set-up can be attributed to locally-specific interaction between the networked social capital of local actors and the symbolic power enjoyed by their Western partners. This interaction allowed local actors, in particular the former managers of Tesla who took managerial jobs in AVX, to become mediators of the meanings and practices of internationalization. This, in itself, is not particularly unusual in post-Communist regions experiencing some degree of internationalization. What is, however, quite unusual about the role of AVX managers in Lanškroun is the fact that they also kept active their old contacts in the region. Through them they enrolled a large number of other local actors, mostly owners of newly established SMEs, in the process of adaptation to the international practices. In this way, the managers of AVX strengthened their local recognition and control over the networks in the region. What is even more unusual, it seems, is that they also

successfully persuaded their Western partners about the usefulness of such networks and about the value of local ways of doing things. As a consequence of this successful move, the managers could turn their control over the social capital of local networks into a source of recognition in relation to their foreign partners in AVX.

The bilateral recognition enabled the Czech management of AVX to enrol both their foreign partners as well as a substantial number of local actors, firms and their owners in a particular interpretation of reality which seemed to bring benefits to both sides. The owners of local SMEs could identify with the process of adapting to the new requirements of internationalization, as they could see in it direct benefits to themselves in the form of contracts from AVX. Similarly, the foreign investor realized the potential of cheap local supplies and so its attitude towards local networks and practices gradually evolved into one of acceptance and appreciation. The processes of translation and enrolment thus allowed for a mutual adjustment of the action frameworks of both the local and Western actors and for an alignment of their interests.

The mutual adjustment of diverse action frameworks seems to have, in turn, produced an integrated institutional set-up which allows for blending and combining the elements of old networks, practices and meanings with the new, Western ones. It seems that the process of adaptation to the international meanings and practices has been conducive to a locally-based, collective reinterpretation of the systems of meaning recognized by individual actors. Equally important in the case of Lanškroun is the fact that the action frameworks of local actors, especially of owners of the local machine-building and design firms, are being internationalized largely independently of each other. This increases the inflow of diverse practices and meanings into the locality and results in a greater diversity of local action frameworks. This fact, however, did not deprive local actors of the possibility of communicating with each other. Instead, it enriched the spectrum of networks available to them and enabled local actors to draw on a larger 'pool' of diverse practices and interpretations of other local actors. The process of internationalization therefore produced an institutional set-up which created the scope for new forms of action and for innovative interpretative possibilities (Sabel, 1993,

1994). It seems that this development could continue in the future and that the region might avoid the risks of an institutional lock-in and overdependence on AVX.

The empirical findings presented in this chapter do provide a basis on which one can argue that even in the post-Communist regions, under certain circumstances, the process of internationalization might have a central role to play in the constitution of adaptable and competitive regional economies. It can be further argued that central to such a success is the character of the process through which the meanings of international practices are mediated by local actors and accommodated locally. The empirical findings of this chapter suggest that the cultural processes of translation and enrolment which led to a mutual adjustment of both the positions of local and foreign actors, to the mutual appreciation and use of each other's networks might be a precondition for such an innovative and competitive institutional set-up. Furthermore, the enrolment of a large number of local actors in the process of adaptation gave these actors the motivation to adapt and thus unleashed local development potential. A process of adaptation which enrolls a large number of actors is likely to produce a greater diversity of responses and therefore to increase the chances for collective reinterpretation and locally-based innovative forms of action.

The conclusions drawn from this empirical case study, however, should be treated with circumspection. Despite the success achieved so far, it is also important to be aware that this region is only at an initial stage of developing into a self-sustainable, internationally-competitive economy. Equally, one should not be tempted to draw any simple normative conclusions from this case study. It needs to be stressed that the institutional set-up which Lanškroun inherited from the Communist past represented a unique system of networks, practices and shared meanings which cannot be found in exactly the same form elsewhere and which had a good potential for an integration into international networks.

The outcome of internationalization and the way the regions adapt to it thus depend partly on the character of their inherited institutional set-up. Not all regions might be able to offer their foreign partners networks, practices, and skills which they find beneficial. Similarly, not all local managers enjoy such a local recognition that

allows them to control and mobilize local networks to the extent that the managers of AVX do. Although examples such as Lanškroun seem rather rare among post-Communist regions dominated by foreign investment, there does appear to be scope for other regions to turn their collective institutional assets into a source of adaptability and self-sustaining international competitiveness.

CHAPTER SEVEN : THE REGION OF MLADÁ BOLESLAV: AN ADAPTIVE BUT FRAGMENTED REGIONAL SET-UP?

INTRODUCTION

The focus of this chapter is a much larger and a much looser region than is the case with the other two regions discussed. This case study deals with the internationalization of a set of automotive manufacturers which subcontract to the major Czech car manufacturer Škoda and which are concentrated in the area that surrounds the main Škoda plant in Mladá Boleslav. Škoda was the only major producer of passenger cars in Communist Czechoslovakia. In 1991, when the Czechoslovak Government decided to privatize the company by a direct sale to the German car manufacturer Volkswagen (VW) it also made a systematic effort to gain the maximum possible multiplier effects for the whole national economy from its sale. For that reason, a special clause was incorporated into the agreement between the Government and Volkswagen which guaranteed that a proportion of locally-sourced parts would be used by Škoda, most of which originated from the subcontractors located in the region of Mladá Boleslav. This chapter then, deals only partly with the VW-Škoda venture itself, as its main concern is with the analysis of the impact of this investment on the local automotive suppliers.

The unique feature of the Mladá Boleslav region in the Czech context is that internationalization took place here largely due to a deliberate policy of the Government which tried - by means of the sale of Škoda to VW - to integrate the Czech automotive firms into the networks of Western car manufacturers. The German investor had a strong interest in bringing local suppliers up to its Western standards and also actively encouraged further foreign investment in the local automotive companies. As such, the case study of Škoda's subcontractors provides an interesting example of a 'secondary' internationalization of a regional economy where many Western investors established themselves locally in order to supply the VW-Škoda plant in Mladá Boleslav. Given the number of foreign investors which have come to the region of Mladá Boleslav since

1991, this government policy seems to have been successful. This chapter, however, goes beyond the quantitative significance of foreign direct investment in the region and tries to assess the impact of internationalization on the coordination and adaptability of the local institutional set-up (Amin and Hausner, 1997). This is achieved by analyzing the cultural processes through which the managers of local automotive companies mediated the meanings of internationalization locally (Callon, 1991; Murdoch, 1995). This analysis reveals that the process of internationalization has contributed to the isolation of the action frameworks of individual Škoda's suppliers and increased the fragmentation of the regional institutional set-up.

The first two sections of this chapter introduce the automotive region of Mladá Boleslav and explore the role played by the Škoda-VW deal in stimulating further internationalization of the region. The next two sections employ the concepts of social and symbolic capital to analyze the restructuring of Škoda's subcontractors following its takeover by VW. It is explained that the close links with Škoda which the subcontracting firms inherited both enabled and restricted the actions of their managers and pushed them to accept a particular form of internationalization advocated by Škoda's new owner. The remaining sections analyze the inconsistency between the seemingly uniform, imported, Western practices which Škoda-VW tried to impose on its local suppliers and the actual variety of effects such internationalization had on these firms. These sections identify several segments of automotive firms in the region characterized by different forms and impacts of internationalization. They explain how and why the meanings of internationalization were or were not 'softened' by local mediation and what consequences these processes had for the adaptability of each segment of local subcontractors. The final section pulls together these findings and seeks to assess the effects of internationalization on the adaptability, innovativeness and long term competitiveness of the whole regional institutional set-up.

Škoda and the automotive 'region' of Mladá Boleslav

Mladá Boleslav is the location of the headquarters and the main production plant of Škoda. It is a medium-sized town by Czech standards with some 50,000 inhabitants, located in the north-eastern part of Bohemia in an area with a long engineering tradition dating to the 19th century. Škoda itself is the third oldest car manufacturer in Europe (Pavlínek and Smith, 1998) and also many of its local subcontractors draw on an engineering tradition going back almost a century (interviews).

The territorial focus of the case study is an area with a radius of some 50 kilometres around the town of Mladá Boleslav, which includes part of the territory of four administrative districts (see figure 3). The largest number of Škoda's subcontractors were traditionally located here and indeed, most Czech automotive subcontracting industry is concentrated within this area (see figure 4).

This area, however, does not represent a 'region' in a sense close to that described in the other two case studies, where one single enterprise dominates the employment and economic networks of the whole region. The region described in this chapter is looser and the strong subcontracting links with Škoda are the only unifying features of this otherwise fairly complex and heterogeneous space (for a discussion of a similar notion of a loose and heterogeneous region, see Allen *et al.*, 1998). The domination of this region by the automotive industry and by the networks and corporate culture of Škoda varies between its different parts and is certainly less hegemonic than the enterprises described in the other two case studies.

Having said that, it should also be stressed that the cumulative number of employees of the automotive companies included in this empirical study represents between 10 and 20 per cent of the workforce of the whole region.⁴³ The sense of interconnection and belonging to the automotive complex among all the interviewed companies is strong and so is the feeling of being dominated by and vitally connected to

⁴³This is an estimate based on the interview information and the regional employment statistics (ČSÚ, 1997).

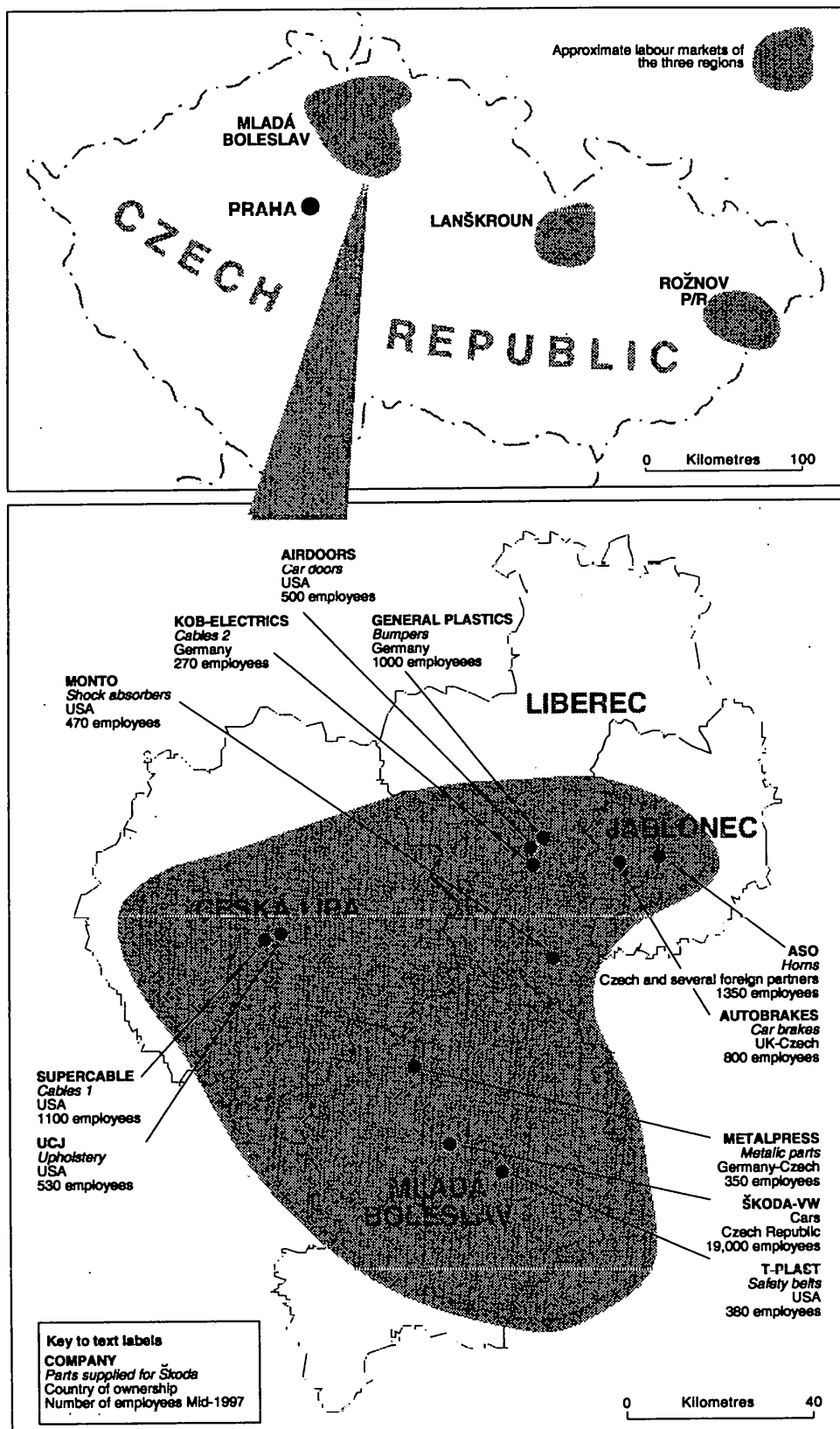


Figure 3: Local labour markets of Škoda-VW and its subcontractors in the region of Mladá Boleslav

Škoda. To employ a spatial metaphor it can be said that among Škoda's subcontractors there is a feeling of gravitation towards a common hub represented by the town of Mladá Boleslav. All the personal and commodity networks of the subcontractors meet in Škoda's headquarters in Mladá Boleslav and it is also here that the managers of local automotive firms usually meet with one another and learn about the others' activities (interviews). The sense of a 'regional unity' among subcontractors of Škoda is also partly a result of the Communist past, when some of today's subcontractors were still a part of the powerful state-owned enterprise AZNP or belonged to the same VHJ as Škoda.⁴⁴ Many personal bonds and networks of the past survived the foreign takeover of Škoda largely untouched and continue to play an important role in preserving the sense of integrity within this automotive region.

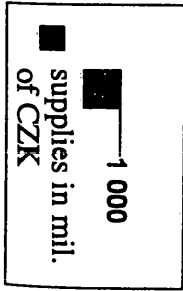
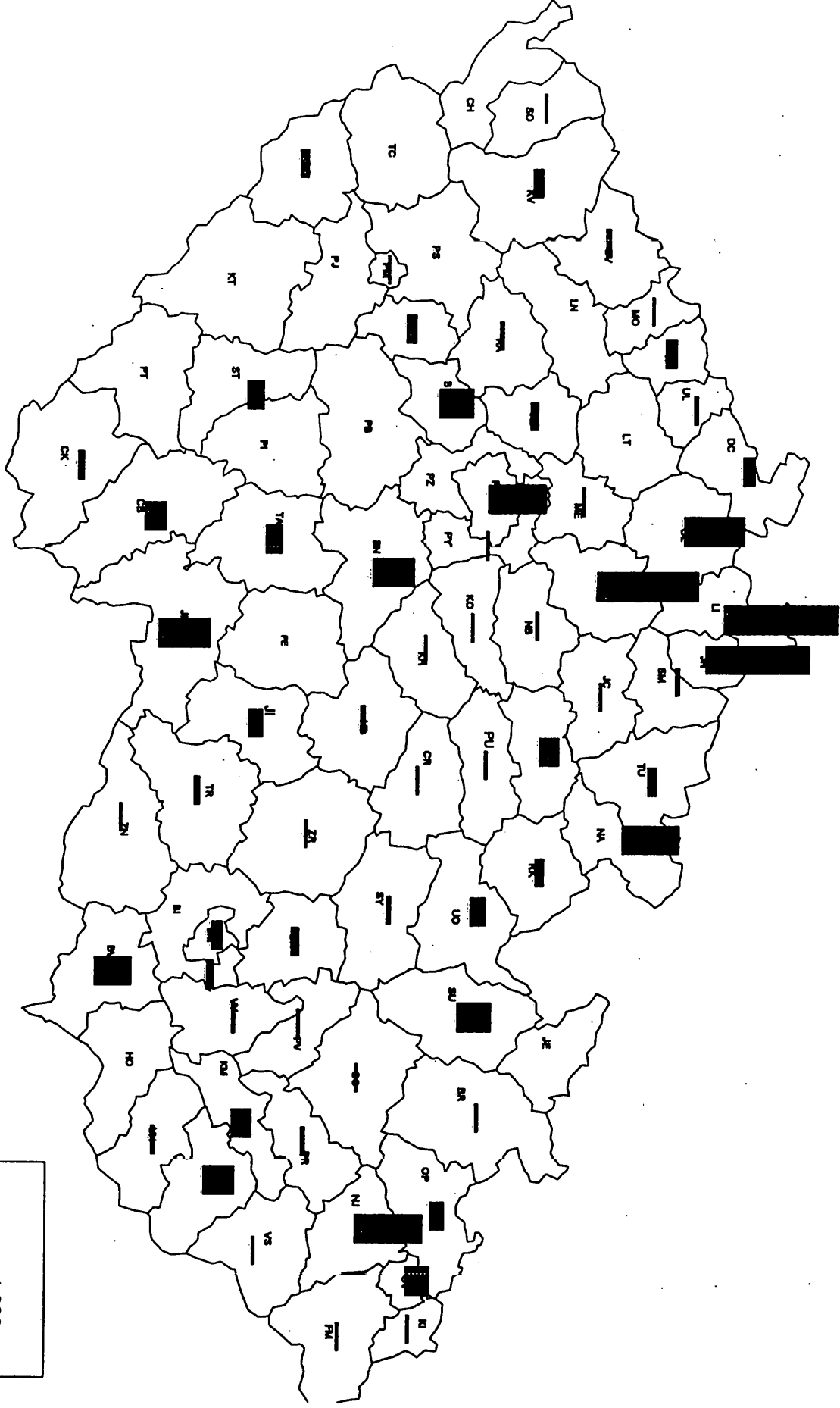
As already mentioned, this chapter does not deal directly with the enterprise Škoda Auto, as Škoda is officially called today. Instead, the main focus is the cluster of Škoda's subcontractors in the surroundings of Mladá Boleslav. However, in order to understand the character of internationalization of this automotive region and to explain the changes in regional forms of embeddedness, it is essential, first of all, to understand the history and the details of Škoda's takeover.

Škoda's history and its role in internationalization of the regional economy

AZNP Škoda Mladá Boleslav, as the full name of the company used to be, was one of the most powerful enterprises in Communist Czechoslovakia. It was also one of the biggest industrial enterprises in the country and as the only mass manufacturer of passenger cars in Czechoslovakia it was a source of much of the pride of Czech industrial traditions and skills. Škoda employed directly some 17,000 workers, provided work for more than 80 subcontracting firms throughout Czechoslovakia (Žák, 1997) and

⁴⁴AZNP (Automobilové závody - národní podnik or Automobile Works - national enterprise) was the name under which Škoda existed in the 1980s when it included the main plant in Mladá Boleslav plus 12 different branch plants in the Czech Republic, most of which were split into independent companies during Škoda's privatization. Two of these are also part of this case study. VHJ Československé automobilové závody (Czechoslovak automobile works) was one of the major industrial conglomerates in Communist Czechoslovakia but it disintegrated in late 1980s during one of the attempts to rationalize the centrally planned economy. At the time of its existence the VHJ included Škoda itself as well as majority of its traditional subcontractors, including some which entered into this case study.

Figure 4: Volume of subcontracting to the Czech automotive industry by administrative districts in 1997 (in millions of Czech crowns)



indirectly gave jobs to as many as 100,000 people (MIT, 1996). About 50 per cent of the Škoda's production was exported and about one fourth of its exports went to the Western markets. These foreign sales represented one of the few sources of freely convertible Western currency for the Communist economy (Ekonom, 1996) which further strengthened Škoda's position as a 'national champion' entitled to special benefits and privileges. Some of these benefits were also redistributed to its major subcontractors. Škoda, and to some degree its subcontractors in the automotive industry, had access to the most advanced technology available in the Eastern bloc as well as privileged access to sources of Western currency which enabled them to purchase on occasion technology from the West (Ekonom, 1996).

However, with the increasing technological gap between the East and the West and with the increasing economic difficulties of the Communist countries, attempts to innovate the products of Škoda were getting ever more difficult (Ekonom, 1996). The last such attempt took place in the latter half of 1980s with the model called Škoda Favorit. In 1989, as a consequence of this massive innovation project (that is in terms of the Communist economy), Škoda and most of its subcontractors were left with huge investment loans to be paid back. This situation coincided with the collapse of the Communist regime and the subsequent surge of car imports from the West. It was obvious that in such an environment Škoda could neither compete with its technologically outdated products for much longer, nor could it pay off its debt.

The first post-Communist Government of Czechoslovakia therefore decided to use the former 'national champion' as a show case of the post-Communist Government's determination to open and reform the economy. As early as 1990, only a few months after the collapse of the Communist regime, the Czechoslovak Government decided to privatize Škoda by establishing a joint-venture with a major Western car manufacturer. Eventually, the ministerial committee selected the German multinational Volkswagen (VW) as the most suitable candidate (MIT, 1996). In the first stage, in 1991, VW gained a 31 per cent minority stake in the joint-venture which was later increased in several instalments and by 1997 VW owned 70 per cent of Škoda.

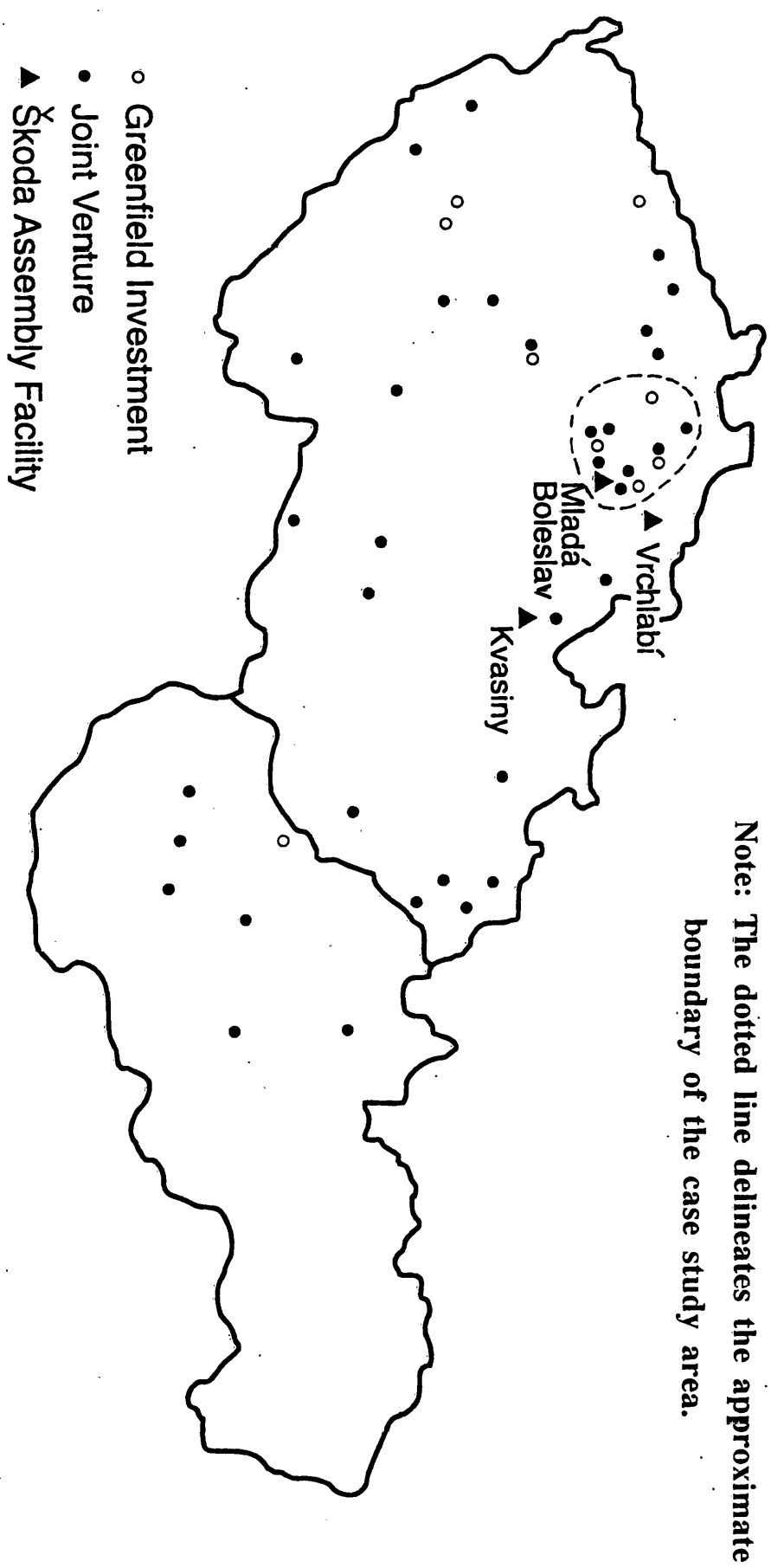
The implications of the decision to privatize Škoda went far beyond those immediately connected with the financial transaction however. As the first major foreign investment deal after 1989, the sale also had great symbolic and political significance. The huge size, novelty and implication of one of the sources of Czech industrial pride ensured that this project was very closely observed by the Czech public with a mixture of anxiety and unrealistically high expectations (Dörr and Kessel, 1996, 1997).

The actual economic consequences of the takeover, however, were equally important. Some of them were established in advance as a list of conditions by the Czechoslovak Government and later specified in its agreement with VW. The German multinational was selected because it seemed to be the candidate most able to satisfy all the requirements of the Government which included: preservation of the trade mark Škoda, preservation of a guaranteed level of production, investment and local content of subcontracting, as well as development of new products (MIT, 1996).

Despite some later problems in the relations between VW and the Czechoslovak Government, which made the enforcement of some of these requirements problematic⁴⁵, the main strategic economic goals of the Czech side were largely fulfilled. The new joint venture invested heavily in the modernization of its production technology, it improved the quality of its products, and started to expand its export volume (for details see Dörr and Kessel, 1996, 1997; Cook, 1998; Pavlínek and Smith, 1998; Martin, 1998). Today Škoda Auto employs nearly 22,000 employees (19,000 in Mladá Boleslav itself), which is well above the pre-1989 levels, and with a turnover of 90 billion Kč is the largest company in the Czech Republic (Škoda Auto, 1998). In 1997 the company accounted for 5.5 per cent of Czech GDP and for 8 per cent of Czech exports (Cook, 1998). The production has increased steadily from 174,000 cars in 1994 to 357,000 in

⁴⁵The problems and conflicts in the relations between VW and Czechoslovak (and later Czech) Government stem mostly from a legal ambiguity of some parts of the agreement. Until present the causes of the conflict are subject to much controversy as the actual agreement has remained secret. The accounts of the causes for the conflict range from inaccurate and biased descriptions of VW's predatory behaviour (see e.g. Gowan, 1995), to more balanced accounts which admit the failure to meet the requirements on both sides (see Dörr and Kessel, 1996, 1997; MIT, 1996; Žák, 1997; Pavlínek and Smith, 1998). An interesting explanation has been provided by two researchers who obtained access to the details of the original agreement (Hayri and McDermott, 1998) and who blame the problems on the inaction of the right-wing cabinet of Václav Klaus that came to power in 1992 (i.e. after Škoda was sold to VW).

Figure 5: Joint-ventures and greenfield investments among Škoda's subcontractors in the Czech Republic and Slovakia (as of 1994). Source: Pavlínek, 1998.



1997, with a corresponding rise in exports whereby some 70 per cent of all Škoda cars produced in 1997 were exported (Škoda Auto, 1998).

More to the point, because of the special attention paid to the local subcontractors of Škoda in the agreement, the Škoda-VW joint-venture also became a powerful means of further internationalization of the Czech economy (Žák, 1997; Pavlínek, 1998). The increase of Škoda's sales and exports involved not only finished cars but also the consequent increase in production of components and spare parts. In 1997, when the company produced 357,400 cars, it also spent 55 billion Kč (around 1 billion pounds) on supplies, of which 37.5 billion Kč (nearly 700 million pounds) went to the Czech-based firms that provided 60 per cent of parts and materials. Škoda's demands will rise sharply if the planned output of 500,000 cars a year by 2000 is achieved (Cook, 1998; Škoda Auto, 1998). Moreover, VW's takeover of Škoda also stimulated an influx of a large number of other foreign investors who were keen to establish their plants locally (Cook, 1998). These decided either to take over existing subcontractors of Škoda or to establish new greenfield sites. The total number of these foreign automotive investments in the whole of the Czech Republic was estimated at 80 in 1998 (Cook, 1998) and the effect of this '*secondary*' internationalization was strongest in the region of Mladá Boleslav itself (see figure 5).⁴⁶

At the present time, it appears as if the desired goal of the Czechoslovak Government has been successfully fulfilled. Thanks to the condition of local subcontracting, the sale of Škoda to VW stimulated further internationalization of the economy and therefore pushed Czech automotive firms to restructure their production and adjust to the practices recognized by the Western firms. Furthermore, it seems that much of this positive effect of internationalization is concentrated in the region of Mladá Boleslav, directly in the area surrounding the main Škoda plant. One interviewee

⁴⁶In May 1996 there were 44 joint-ventures and 24 greenfield foreign investments in the Czech automotive components industry (after newspaper MF Dnes, May 15 1996, quoted by Pavlínek and Smith, 1998). Unfortunately, the data on an exact number of Škoda's subcontractors located in the Mladá Boleslav region is not available because Škoda regards such information as a company secret. Nevertheless, I was able to compile a reasonably accurate list of subcontractors which together with a map published in Pavlínek (1998) (see Fig. 5), confirms the expectation that there is a tendency for automotive foreign direct investment to concentrate within a short distance of the Škoda plant.

summarized the overall positive impact of Škoda's takeover on its subcontractors and the whole Czech economy in the following terms:

"The takeover by Volkswagen had an enormous significance. You will probably be writing about how many people are employed in the automobile industry in the Czech Republic, how many of them are connected with VW, how many people are employed in all the sphere. So it has an enormous importance, because, I think, it was the first company that made this kind of deal with the Government. Second, it was an automotive firm and automobiles are, quite logically, always at the edge of technological development and all the backward linkages, many other things [are affected]. And then the automotive industry has the shortest cycle of innovations. So also from this point of view it was very significant. Another significant factor was that Volkswagen or Škoda started to teach the firms a different way of thinking.[...] It was a tough lesson, because the rule had been that one would get a contract for free... there is a real struggle over them [the contracts] now, the negotiations are tough and people learn to negotiate with someone they never dealt with before. This is a very different attitude... So these are the positives. It opened the door for us to 'the first court of the castle' [meaning the world automotive markets] where the system of global and forward sourcing is also being used. And many of Czech suppliers have a chance to penetrate these structures."

However, the same interviewee also retained some ambivalence regarding these same effects of internationalization on local actors and firms:

"It has also its negative side. There is an enormous pressure on costs and prices. The negotiations are tough and many firms lose the contracts in the competition." (interview with a manager of SAP, 11.11. 1996)

The issue of balance between the positive and negative effects of internationalization raised in this quote represents the focus of the following sections of this chapter. These analyze the processes through which VW's 're-education' of its Czech subcontractors translated into particular meanings of internationalization and transformed the action frameworks of people who manage the local automotive firms.

COPING WITH THE HERITAGE OF STRONG TIES: SOCIAL AND SYMBOLIC CAPITAL AMONG ŠKODA'S SUBCONTRACTORS

The enabling role of strong ties: internationalization as a source of symbolic power

The companies included in this case study represent a diverse range of production processes and skills and they represent about a half of Škoda's subcontractors located in the automotive region of Mladá Boleslav.⁴⁷ Among them are producers of components

⁴⁷This is my own estimate for year 1997 when the interviews were conducted. It is based on older sources of information about the foreign owned subcontractors of Škoda (MIT, 1996), on materials acquired from PR department of Škoda Auto, and on the information extracted from the interviews.

as diverse as car brakes, shock absorbers, seat fasteners, or seat upholstery (see figure 3). An effort was also made to include into the sample both the subcontractors that supplied Škoda before 1989, as well as those that only started to subcontract after VW's takeover, and both the Czech- and foreign-owned ones (for details see the Appendix).

Despite the heterogeneity of the selected automotive firms there is one major unifying feature. It is the close ties with Škoda and their shared vital dependence on it as the main customer. The dependence on Škoda is not surprising given the previous history of the companies in question. Most of them are traditional suppliers of Škoda and two of them even used to be branch plants directly owned by Škoda. Although the majority of Škoda's traditional suppliers used to have a more diversified customer base in the past, this situation changed rapidly during the early 1990s mainly due to the persistent economic difficulties other traditional customers, especially the Czech truck manufacturers. The importance of strong networks with Škoda became prominent soon after its takeover by VW since Škoda was one of the few Czech companies that, thanks to VW, never experienced financial difficulties and thus represented a reliable and highly desirable customer. Furthermore, these networks also came to play a central role in spreading the meanings of internationalization and in transforming the action frameworks of Škoda's local subcontractors.

Similar to most Eastern European industry, the subcontractors of Škoda were technologically backward, they lacked money for investment and some of them were also heavily indebted. The managers of local subcontractors were quite aware of these existing problems and knew that, as independent Czech manufacturers, their position in the market could be threatened by the sale of Škoda to a Western investor. When asked about their motivation for linking up with foreign partners the replies of managers were often remarkably similar:

"Should Škoda join with a foreign partner, and by that time [1990] it was becoming clear they would choose one... So at that moment the demands on the quality, especially on the quality of subcontractors, would grow substantially. And so it looked like a good idea to join with someone who had the experience and who was a supplier of either Renault or Volkswagen [the two last candidates for joint-venture with Škoda]." (interview with manager in General Plastics, 25.4. 1997)

"Our technicians had a rather pessimistic view of the situation. They thought that we wouldn't be able to keep pace with technological development of our competitors from abroad [...] It was clear that Volkswagen would bring with it some firms from Germany and that it would be difficult to keep our position [in Škoda] without any major technological development." (interview B with a manager of Airdoors, 13.5. 1997)

Yet despite these problems there was a major advantage which the subcontractors of Škoda enjoyed in comparison with most industrial enterprises in the Czech Republic. With the looming prospects of a takeover by a financially strong Western multinational, the old links with the car manufacturer, and to some extent also the proximity to Škoda's plant in Mladá Boleslav, suddenly became important assets. The prospects of a profitable business of subcontracting to a member of the VW group became the source of a networked type of power (Allen, 1997) for all the established subcontractors of Škoda in the region. Unlike most Czech firms that had to struggle to attract the attention of foreign investors, the suppliers of Škoda could, at least temporarily, exploit this source of power in negotiations with potential foreign investors. Thus when asked about the origin of contact with foreign partners and the reasons for being selected by them as the target company, the answers of the managers were quite unusual for Eastern European companies.

"We were in a position when we could choose a foreign partner because we were such a lucrative enterprise." (interview with a manager of Supercable, 28.5. 1997)

"T-Plast approached us because we were selected as a potential good producer [for a partnership]. [...] They were probably interested because we were a pretty well organized firm and also because it is at a spitting distance to the [Škoda] plant." (interview A with a former general manager of T-Plast, 5.6. 1997)

"The whole selection process was done in such a way that *we* selected *them*. There were several firms interested to come here." (interview with a manager of Autobrakes, 14.5. 1997; original emphasis)

Such empowerment through the network heritage made the position of local managers relatively strong even in negotiations with major Western automotive firms. Their companies suddenly became so attractive that it made the task of negotiating the terms of joint-ventures or foreign takeovers far less arduous.

The managers of Škoda's subcontractors were thus offered an opportunity to link-up with foreign investors. Such association could, in turn, be used as a source of new, Western symbolic capital and power of recognition in relation to Škoda and to other Czech companies. Moreover, by means of this association local managers could also legitimize their own privileged positions in their company. With the backing of foreign investors it was much easier to get rid of inconvenient obligations associated with some parts of the old networks, such as the ones towards the bankrupting truck

manufacturers or towards the members of old local networked coalitions. The contacts with Western partners also gave the managers the symbolic recognition which allowed them easier access to credit sources (usually on better terms than any Czech firm could get) for technological upgrading and paying off debts, if there were any. Quotes by two interviewees give some idea about the difference that the presence of foreign partners made to the local firms in this respect:

"Four years ago [when the firm was still only in negotiations with foreign partner] we had to beg banks [for credit] [...]. Today we are in a situation when they fight for us as their customer." (interview with general manager of Metalpress, 13.6. 1997)

"As a part of ASO [a Czech manufacturer, original owner of this plant] we really had great financial difficulties. [...] After the takeover everything changed as if someone had waved a magic wand. [...] Today we have to defend ourselves against banks that try to persuade us to take loans from them!" (interview with a financial manager of Monto, 21.5. 1997)

The technological upgrading and reorganization of production that local managers implemented with the backing of their new foreign partners also helped to increase the quality of products. This further improved the chances of success for their local firms in the competition for contracts from Škoda and, as a consequence, assured that there was no need for major reductions in labour force. Interestingly, there were no substantial lay-offs in any of the companies interviewed. On the contrary, some managers complained about the shortage of labour in the area where Škoda "sucks in all unemployment" and "pushes the wages far too high" (interview with manager of Metalpress, 13.6. 1997).

The absence of any major redundancies made the efforts of managers to gain or maintain recognition in their respective localities and among their employees that much easier. The respectable standing of managers in the eyes of local people was further facilitated by earnings well above the national average caused by the extremely low unemployment levels in the area (around 2-3 per cent in 1997).

The interviews suggest that in some cases the local managers did not even feel the need to use local networks as a source of recognition and legitimation. Several interviewees confirmed this lack of interest in local networks and in local affairs generally. One interviewee when asked about the nature of his contacts with other local bodies even angrily replied that he does not care about other local bodies and networks because "they all just want money from us" (interview with general manager of

Supercable, 28.5. 1997). Strong local networks and a sense of responsibility for the regional economy which were so prominent in the case of Lanškroun are features largely absent among subcontractors of Škoda.

This lack of interest in local networks and local affairs generally can be partly seen as a reflection of the relative ease with which the positions of local managers were re-legitimized by the presence of Western investors. Local management thus usually did not feel a need to protect themselves against uncertainty by having a stake in other local businesses or by cultivating supportive networks with other firms in the region which could provide a form of hedging against uncertainty. As a consequence, the networks of the large majority of managers in Mladá Boleslav region are relatively isolated. They are closely associated with Škoda and/or their foreign partners alone but the links with local administration or with other local firms (in a form of interlocking directorates which is a common feature in the other two case study regions) is virtually absent (different interviews; database of the Ministry of Justice). It seems that instead of relying on local networks, the managers have put all their effort into negotiations with their foreign partners and the construction of stable relations with Škoda which served as the dominant form of recognition.

One of the preconditions for such recognition was the restructuring of the enterprises which, with the help of foreign partners, usually took place very rapidly (interviews). The subsequent increases in volume of production, labour productivity, quality and profits observed in the majority of Škoda's subcontractors (interviews; Říhová, 1998) were a sufficient argument to confirm the positions of Czech managers within their companies and in relation to their foreign partners.

From the foregoing it follows that the heritage of strong ties with Škoda made it relatively easy for the managers of local suppliers to secure links with foreign capital and thus strengthen their recognition by VW executives. In order to confirm their positions the managers had to implement an enterprise restructuring which typically consisted of an import of the latest Western technology and practices. These, in turn, led to a relatively quick adaptation to the criteria of efficiency specified by VW. However, the backing by the symbolic power of Western partners also allowed local managers to

'disembed' themselves from the obligations of local networks (Smith and Swain, 1998).

As we shall see in the next section, however, the heritage of strong ties with Škoda combined with the disembedding effect was not always positive for the local automotive suppliers.

Restrictive role of strong ties: reducing the scope for action

Aside from their strong position in negotiations with foreign partners, all the managers of Škoda's subcontractors also had to accept the fact that Škoda-VW had a very strong opinion about what the market environment for its subcontractors should look like.

VW's main aim was to undermine the powerful position of the semi-monopoly enjoyed by some of its local subcontractors and to increase competition in order to achieve best quality for lowest price (Dörr and Kessel, 1996, 1997; Pavlínek, 1998; Pavlínek and Smith, 1998). Subsequently, this strategy had a strong influence on the action frameworks of Škoda's suppliers as it began to shape the particular understandings of and give meaning to the notions of market and efficiency.

The interviews indicate that the issues of quality and cost were prominent in the particular *interpretation of internationalization* presented by the management of Škoda-VW. The managers of subcontracting firms thus had to come to terms with the international meanings and practices and accommodate them into their existing action frameworks. Otherwise they could lose their contracts with Škoda, as well as their recognition in the new, internationalized economic environment.

The new meanings of the market and the nature of competition based on the criteria of cost and quality also had major repercussions for the stability of existing subcontracting relations. One of the managers of a company, recently established through a foreign greenfield investment, summarized quite clearly the officially declared attitude of Škoda-VW towards its local subcontractors:

"Here you can't talk of stability. In the market economy it [stability] is a kind of technical term with many meanings. But as long as we keep the costs as they are now [i.e. low], as long as our quality remains as it is now and as long as we offer our customer such a [satisfactory] service, then I am sure there is no reason why we should not keep on supplying them. [...] Costs play a central role in the process of deciding who will and who will not be a supplier." (Interview with manager of UCJ, 10.6. 1997)

To achieve ever lower costs of supplies and to break the powerful position of its existing subcontractors Škoda tried to increase the competition among these subcontractors by all means possible. Although the German management of Škoda had agreed to protect Czech subcontractors through guaranteed contents of local supplies, they also made it quite clear that there could be no guarantee of contracts for present suppliers who would not comply with their criteria. Quality of supplies was usually an even greater problem for Czech subcontractors than costs and also here Škoda's position was quite firm. One of the interviewees described Škoda's purchasing policy in respect of quality in these words:

"They [Škoda after VW's takeover] changed the whole system of purchasing when they introduced the system of auditing of suppliers. The rule is fairly straightforward: those who don't get enough points in the audit can't become a subcontractor. Of course, if they [Škoda] have no other option, they might grant an exception. But then they rather go for supplies from abroad. They would rather start sourcing from abroad than risk an unstable quality of production. [...] Many Czech subcontractors couldn't come to understand this and kept bombarding them [Škoda] with questions about whether they would rely on them as future suppliers. And they patiently [...] explained to them over and over again that the local suppliers are the best option for them, but that they must comply with certain standards of quality. And many Czech firms lost the contracts because they didn't adapt to the pressure for improved quality that they [Škoda] put on them. [...] Today there are plenty of foreign firms that start to build up their own plants which are going to become our competitors [...] These try to cut a slice from Škoda's contracts for themselves." (interview with a manager of General Plastics, 25.4. 1997)

Both Škoda and the Czech managers of its subcontractors were quite aware that it was very hard for Czech firms to meet stringent criteria of quality and cost and survive in conditions of increasing competition without the help of foreign partners (interviews in ASO, General Plastics, Airdoors). Despite the guaranteed element of Czech subcontracting in Škoda cars the company did not wish to lose time and so it pushed the local subcontractors to form collaborative ventures with foreign firms or to agree on foreign takeovers. To keep the local suppliers on the tips of their toes Škoda-VW used methods such as the one described by one interviewee in this way:

"They [Škoda] are trying to have two suppliers for each part. One has a guaranteed 80 percent of their purchases and the other one 20 percent. In practice, however, they buy all 100 percent from one. [...] It is a back-gate for Škoda, a Damocles' sword of sorts, a threat over every supplier that if they don't supply as they [Škoda] demand - and this concerns not just the quantity but also at an acceptable price - so they can always go for the other one with whom they agreed on 20 percent of supplies. Although they don't buy anything from them, they always have the option of cutting off [the original supplier]." (interview A with former general manager of T-Plast, 5.6. 1997)

In this context the initial strong position of Škoda's subcontractors looks rather different. The networks with Škoda which represented a source of symbolic power also made the

managers of local subcontractors strongly dependent on the interpretations of internationalization advocated by VW. The narrow orientation towards Škoda and lack of other networks restricted the capacity of several local managers to create alternative meanings of internationalization and to mediate them through locally-based processes of translation and enrolment. They were therefore left with no choice but to accept VW's practices.

Nonetheless, the Czech managers of Škoda's subcontractors did have a choice between two basic strategies. Either they could bow to the pressure and accept a foreign partner, or they could pursue an independent, domestic strategy of restructuring. In the first case the managers' strategy would be based predominantly on the *acceptance* of foreign managerial and organizational practices with their stress on quality and cost control. This usually led to rapid restructuring but often with the substantial simplification of and losses to the network heritage of firms (Grabher, 1994, 1997). The local managers would become the agents of restructuring on behalf of the Western corporations. In this way they could appropriate the new symbolic capital and power which in the eyes of local people was associated with foreign, Western capitalism. The Western practices and organizational principles, together with the audit ratings and top quality awards from Volkswagen, or international awards of quality (ISO) which are proudly displayed in the offices of general managers, would be used as the new source of legitimation and recognition.

In the second, alternative scenario, the managers would instead promulgate the Czech way of restructuring as the valid and legitimate one. They could use their networked social capital in an attempt to enrol other local actors and negotiate the differences between their practices and the imported Western ones represented by the demands of Škoda. Equally these managers had to increase quality and control the production costs of their supplies in order to secure the contracts with Škoda. If they were successful their efforts could also bring them recognition and legitimation and become a source of symbolic power. In this case, however, such recognition would be achieved through a difficult and time consuming process of search and adjustment (Stark, 1996; Stark and Grabher, 1997b). The managers would achieve recognition

through a process of *mediation* and *translation* (Latour, 1987; Callon, 1991) which could potentially result in a collective adaptation and a locally-based reinterpretation of the imported practices. However, Škoda-VW had little enthusiasm for such time consuming experiments. So obviously this strategy involved the enormous risk of Škoda losing its patience and the managers of local suppliers losing the vital contract with Škoda as well as their symbolic power and recognition.

In fact Škoda-VW maintained a systematic pressure on its Czech suppliers to join forces with Western partners (Pavlínek, 1998; Pavlínek and Smith, 1998) rather than negotiating specific conditions with individual suppliers. The intention was that the foreign partners would take over the responsibility for and become an efficient means of transferring VW's, or more generally Western, practices and concepts to its Czech subcontractors (Cook, 1998). It is little wonder that most subcontractors then bowed to the pressure from Škoda's management and established joint-ventures or arranged takeovers in which the foreign partners were expected to play a mirror role to the one that VW played in Škoda itself. When asked about the motivation for linking with foreign partners one of the interviewees described the situation and pressure he had to face in the following way:

"Volkswagen had been at Škoda for more than a year and we still didn't have a foreign partner. So, of course, the pressure was enormous to prove [to them] that we had a cooperative attitude, that we could make an agreement with someone [...] that we could secure a partner for a joint-venture in order not to lose our main customer. [...] Volkswagen to some extent preferred [Czech] firms that were able to make an agreement and collaborate with a Western partner. This was a decisive factor in favour of the decision to secure the direct participation of a foreign partner. [...] But the Western partners, especially at the beginning, in 1990 and 1991, were very aggressive. They looked at us as if we had just climbed down from the trees. And also their conditions were set up in such a way." (interview with general manager of ASO, 14.5. 1997)

The above quote documents not just the pressure on the management of local subcontractors to pair with foreign firms, but in the latter part it also hints at the negative attitude of foreign firms towards the heritage of local networks and practices. Foreign firms usually had very little knowledge about the actual state of local production technology, practices and routines and often lacked respect for them. Their perceptions were often dismissive and the foreign partners were not even very much interested to learn about the locally-specific system of networks, practices and meanings in which local actors operated. Understandably, the situation was very unfavourable to

any attempts to mediate the meanings of internationalization and to reconcile and negotiate the differences between local practices and those imported by Western investors.

Negative attitudes were very common especially at the initial stage of negotiations when many foreign investors rushed to follow VW and wanted to establish themselves locally through takeovers (interviews)⁴⁸. Many foreign investors simply wanted to take over existing suppliers in order to establish a cheap production base in the proximity of Škoda and often behaved in ways which were unacceptable to local firms. Such was also the experience of a Czech-owned supplier SAP. When asked why his company had not attempted to link up with a Western firm the manager replied:

"Of course [we did try]. We tried that with a German company called Krugel, which is owned by the American firm MCM [both names changed]. [...] The negotiations were very long and we expected MCM to buy a part of our production facilities but at the end they were not fair in the negotiation and it appeared that they were only interested in gaining the [local] market. So we quit this negotiation. But it became clear that in the long run we couldn't exist without some kind of collaboration [with foreign partners]. We can't operate just on our own in the future. And so presently we negotiate and cooperate with many companies." (interview with a manager of SAP, 11.11. 1996)

The quote also shows that despite the negative attitudes of many Western investors the Czech managers still often had little choice but to negotiate a deal with them. The suppliers were under pressure from Škoda-VW to speed up the process of pairing with foreign partners because without such foreign participation they were unable to secure the necessary financial resources and know-how sufficiently quickly. This time pressure was very significant because if the supplier did not satisfy the requirements of VW and the negotiations with foreign partners dragged on or even failed, VW did not wait, it simply quit. In such cases the chances of Czech-owned suppliers to win back the contract they had once lost were minimal (interviews in General Plastics and ASO).

Given these circumstances the Czech managers generally lacked the motivation and the time to mobilize their old networks, enrol other local actors and demonstrate the potential strength of local action frameworks to their foreign owners. Usually there was also only a very short period of mutual 'testing' between local and foreign firms before the takeovers or joint-ventures materialized. It was not uncommon for a foreign investor

⁴⁸For similar attitudes among many VW's managers in Škoda at the beginning of the joint-venture see Dörr and Kessel (1996).

to be selected by a state committee in a competitive tender (interview with general manager of Supercable). The positions of the Czech managers were thus usually unsuitable for working together with their foreign partners on the mutual adjustment of expectations, understandings and practices.

In the interest of expediency, many Czech managers turned to the imported Western practices as a source of symbolic recognition and became resigned to their role as mediators (Callon, 1991, 1998) of the Western practices and meanings. Instead, after the entry of foreign capital, their activity was often restricted to that of an efficient channel for implementing the imported practices according to the guidelines of foreign partners. Only two out of the sample of eight 'old' (i.e. pre-1989) suppliers of Škoda opted for the strategy of independent restructuring without a foreign partner. Even these two companies cooperate with foreign partners and have stakes in joint-ventures with Western firms (see the Appendix) while the rest of the 'old' suppliers preferred to accept foreign owners rather than risking an independent but less certain future.

This, however, does not mean that all the companies where the Czech management opted for a foreign joint-venture or a foreign takeover would necessarily follow a way of restructuring 'typical' for all foreign-owned enterprises. There is no inherent reason why foreign participation and the pressure for high quality and low prices should always lead to the same loss of network heritage and a suppression of local action frameworks. Moreover, the acceptance of VW's practices alone does not mean that all the managers interpreted them in the same way and that these interpretations had the same consequences for their long term adaptability. It is to a closer analysis of these issues which we will turn in the remaining sections of this chapter.

THE IMPACT OF INTERNATIONALIZATION: TOWARDS HOMOGENIZATION OR VARIETY?

Introduction of Western practices and the variety of their understandings

The internationalization of the Škoda's subcontracting networks had a major impact on the local institutional set-up and on the action frameworks of its suppliers. The efforts of Škoda to increase the competitiveness of the environment in which local subcontractors operated and to change the character of local practices were largely regarded as legitimate by the majority of subcontractors (interviews). Škoda's subcontractors also had to accept and adapt to VW's method of *global and forward sourcing* which did not, however, meet with the same degree of local support and understanding. The way in which the managers understood this method, as well as the meaning they gave to 'the capitalist market', openness and trust in business, represent the focus of the following analysis. Such analysis, it is argued here, can evaluate the actual impact of the VW's investment on the action frameworks of local managers and their firms, and indeed on the whole regional institutional set-up. By exploring the managers' interpretations of the practice of global and forward sourcing we can understand how local actors actually adapted to the process of internationalization. In other words, this analysis can show us how the Western ways of doing business affected the locally-specific systems of practices and meanings. It can also serve as a basis for assessing whether the Western practices did or did not increase the integration between the diverse local action frameworks and thus create preconditions for innovative interpretations and adaptability.

The method of global sourcing consists of comparing the costs of individual components from suppliers all over the world and VW uses this method on a global scale both before and after signing the contracts with suppliers. Subsequently VW uses the information gathered about the comparative prices of components to further push its suppliers to minimize their costs. After the takeover of Škoda, VW extended this system to its Czech suppliers too. However, the managers of automotive firms in the region of Mladá Boleslav often expressed resentment towards the continuous pressure to lower the price of supplies which, according to many of them, would not stop even if their supplies apparently achieved the required criteria of high quality and low costs. All the interviewees stated that Škoda was forever trying to discover more about the production costs of the parts they supplied and the majority agreed that the system of auditing is

primarily aimed at achieving this. Despite some minor differences, all the subcontractors also admitted that thanks to the methods of auditing and global and forward sourcing, VW knows in some detail about their production costs and profit margins. What worried the managers and what they particularly disliked was that Škoda was using information from these audits in order to acquire leverage over them, to disempower them and push down their profit margins in a way that some of them saw as pointless and unfair.

It is worth quoting the comments of the interviewees at length as each reveals a somewhat different interpretation and understanding of the new practice. Each quote thus also suggests a different consequence of internationalization for the action frameworks of actors.

"In the first round global sourcing probably got rid of the greatest... I don't want to say cheaters, but those who had excessive profits. But now, when things are stabilized, it is just plenty of work and the overall result is *zero*." (interview B with manager of T-Plast, 5.6. 1997; original emphasis)

A similarly reserved attitude to the practice of global and forward sourcing was expressed by other interviewees:

"Škoda can read our cards pretty well. [...] You have probably heard of Lopez and his methods of global and forward sourcing. It consists of comparing the prices of purchased inputs before the actual mass production starts but also during production itself. They ask for offers also from companies that are not supplying them [at present]. So they know pretty much exactly at what cost who supplies VW's plants anywhere else in the world. And these prices are a standard for us and also for our subcontractors [...] But this [global sourcing] is in a way a dangerous and imprecise method. It is not always objective because individual suppliers can make mistakes. Either mathematical or just make a wrong estimate and then offer the price. And VW does ask whether there has been a mistake. But if the price is the lowest one they would nonetheless use it [in price negotiations]. [...] But Škoda, or Volkswagen, is such an attractive customer that no supplier, or... hardly ever does a supplier dare to say that they will not supply at such a price and refuse a whole contract." (interview with a manager of KOB Electric, 29.5. 1997)

"This is the Lopez effect by which the car manufacturers in many cases dictate, or try to dictate the prices in such a way... I can understand the people from their purchasing department because they are rewarded for doing exactly this. Then it [the choice] is either, I will go under my price and try to get the money back elsewhere, or, I decide not to accept such offer. [...] Such bargaining is common and sometimes, I think, it's useless. But I can't quit the customer because of that. [...] Although I don't particularly like it, one gradually gets used to it." (interview with a manager of Metalpress, 13.6. 1997)

In other cases, however, the attitude towards Škoda's practice of global sourcing was relatively positive and it was not regarded as damaging:

"Everyone would like to know the production costs of their supplier. Škoda, I think, knows our costs quite well in order to be certain that the prices of our products fall within a range where there is no risk of our supplying them at a rate below our actual cost of production. That would cause bankruptcy and destroy a reliable supplier for our customer, that is ourselves. At the same time the prices are in ranges that correspond to the usual standards of profitability [of automotive suppliers]." (interview with manager of Autobrakes, 13.5. 1997)

The variety of interpretations suggest that Škoda did not successfully enrol all its subcontractors in a shared understanding of the new practice. The process of internationalization imposed the basic criteria of a highly competitive environment on all local suppliers. However, instead of enrolling the managers of supplying firms and aligning their action frameworks and interests with Škoda's, it produced a variety of interpretations and responses. The local managers did not identify themselves with the practice and did not accept it willingly. Although VW made most local managers accept the importance of the cost and quality criteria, the quotes suggest that in many cases the acceptance of Western criteria and forms of rationality did not produce a perfect translation (Callon, 1991). From VW's point of view, the introduction of global sourcing was not uniformly successful as this practice was left to a variety of interpretations which were often at odds with those of VW. As a result of an imperfect translation and lack of enrolment, the practices of VW were generally not accepted as 'normal' and the process of internationalization failed to produce trust in shared meanings or the mutual adjustment of actors.

Furthermore, virtually all interviewees (with only two exceptions) stated that the use of tricks aimed at a reduction in the cost of supplies was a very common practice of Škoda's, while only less than half of them regarded this practice as an acceptable one or as 'normal' in the market environment. The others regarded it with reservations, some called it unethical and only possible because of the powerful position that Škoda has enjoyed. Under such circumstances it does not come as a surprise that VW was not able to enrol local managers and align its own interests with those of local actors.

The different interpretations and the lack of shared meanings was further exacerbated by the method of communication used by Škoda in relation to its suppliers. As part of its method of global and forward sourcing, Škoda communicates with its subcontractors independently and only uses information about others as a source of pushing them in price negotiations and playing them off against one another (interviews in T-Plast, KOB Electric, Autobrakes). The practices introduced by VW thus seem to intentionally prevent managers of local subcontractors from communicating with each other. This aspect of Škoda's practice, it seems, further exacerbates the lack of mutual

trust among subcontracting firms in the region. It prevents local actors from achieving an alignment and mutual redefinition of their positions (Callon, 1991, 1998; Murdoch, 1995) which, in turn, could ease the mobilization of local resources and smooth the adaptation of the whole region to the process of internationalization thereby creating novel interpretative possibilities (Sabel, 1993, 1994; Storper, 1995; Storper and Salais, 1997).

The failure of Škoda-VW to produce a shared system of meaning and to cultivate a trusting and open attitude among local firms has also complicated the attitude of local managers towards the car manufacturer. It seems that instead of an openness and trust, the relations between Škoda and its local suppliers are often characterized by the withholding of strategic information. These features have been confirmed by several managers and are expressed in the three following quotes:

"Openness is dangerous, I would say; if we were entirely open in relations with Škoda... We managed, under the pressure from our new foreign owner, to lower costs. [...] And I think that in this respect openness in relation to Škoda would not be good. They would immediately push us to lower our prices further. We could perhaps lower our prices but we need the maximum possible profit in order to pay back the enormous debt [that the Monto has to pay back to its foreign owners in instalments to compensate for the sum that the foreign partner spent on its takeover] (interview with a manager of Monto, 21.5. 1997)

"It is probably not right to tell them everything quite openly because they are constantly trying to pressure you. If they said: 'look, tell us your production costs and we will guarantee you a 30 percent margin...' Then why not! But they would never say that." (interview B with manager of T-Plast, 5.6. 1997)

"A certain reserve should be maintained. Complete openness could be just being silly. [...] It is needed, right, this openness, but it has its limits [...] Complete openness - no. It is not good when the partner sees too deep into your cards." (interview with a manager of General Plastics, 25.4. 1997)

However, the opinions on the role of trust and openness in relations with Škoda and in market relations generally varied quite substantially among local managers. Some interviewees regarded the practice of trust and openness towards their partners as a matter of mutual 'testing', something which is possible to arrive at or has already been achieved in relations with Škoda:

"I see it [openness in customer relations] more as an advantage. [...] From the short term perspective it can be unpleasant because they then teach us a lesson [since they are allowed to see the weaknesses]. But from the long term perspective it is good." (interview B with manager of Airdoors, 13.5. 1997)

"Openness, openness... Every company has its secret. Openness must only be to a certain extent. But for good relations with Škoda, and I think the relations are good at all levels of management, so here the openness is to some extent needed and is even necessary." (interview with a manager of Metalpress, 13.6. 1997)

At the level of relations with customers in general, the managers seemed to be much more positive and willing to commit themselves to the risks of working with their foreign partners. One of the interviewees remarked in respect of this:

"I personally think that openness is to the merit of the thing [relations with customers]. It is also a matter of trust. If you are correctly informed you know much better what to expect. And that's what matters." (interview with a general manager of KOB Electric, 29.5. 1997)

The varied opinions expressed by local managers suggest that they were generally quite reserved in their openness in relation to Škoda itself, but at the same time many of them personally regarded trust and openness as a desired and essential part of market relations compatible with the process of internationalization. Most interviewees also made a clear distinction between the actual state of their relations as opposed to their desired quality. Furthermore, several managers also contrasted the character of their relations with Škoda-VW with the ones they had with their other foreign partners or owners who sometimes developed a greater degree of understanding for the specificity of local action frameworks.

The findings confirming the diversity of interpretations and meanings assigned to the practices advocated by VW are, I believe, of great importance. They suggest that many suppliers of Škoda in this region (both Czech and foreign-owned) are managed by people who value trust, open relations and mutual understanding and who did not accept the practice of tough price competition as a necessary part of internationalized market relations. Only a small minority of local suppliers, it seems, accepted the imported practice and its logic of low cost competition at its face value. On the contrary, the management of several suppliers of Škoda showed a clear preference for negotiation and mutual adjustment of different practices and meanings. They were very critical of the cut-throat competition presented by Škoda as a part of the new, recognized subcontracting practice. The explanation of such diverse responses can help us to understand how exactly the action frameworks of local actors were transformed by the process of internationalization and it also brings us closer to assessing the impact of internationalization on the adaptability of the Mladá Boleslav region. These are the issues tackled in the following sections.

Translating the meanings of Western practices

Škoda-VW's proclaims that the tough criteria of global sourcing are applied universally to all its automotive suppliers in order to increase the competitiveness of their products (see e.g. Cook, 1998). However, the discrepancies between these statements and the diverse interpretations of the imported Western practices by local managers have been observed in the great majority of companies. This was the case in Czech-owned as well as foreign-owned suppliers, and equally among the 'old', pre-1989 suppliers as well as the newly established, greenfield foreign investments. The discrepancies between the universal application of subcontracting practices and their diverse impact on the local firms can, in my opinion, be interpreted in two possible ways.

The first possible explanation implies that Škoda has advocated a cut-throat competition but in practice has used a differentiated approach towards individual subcontractors and is more tolerant of some suppliers than others. In some cases the car manufacturer has tolerated alternative interpretations of Western practices and has given its suppliers an opportunity to negotiate the differences between the rationality of global sourcing and their respective action frameworks. The second possible explanation of the discrepancy is that the Czech managers have simply resisted the meanings of market and internationalization advocated by VW. They have preserved different views about the practices of subcontracting despite the strict rationality and uncompromising attitude of VW. This implies that local actors do not accept whole-heartedly the interpretation of Western practices presented to them and instead attempt to 'soften' them by looking for alternative interpretations and increasingly relying on other networks than those of Škoda-VW. In reality, both these explanations seem to be correct and the simultaneity of both processes has been confirmed by the empirical findings.

Firstly, there seems to be some evidence that Škoda really does treat its suppliers differently. Often, as the following quotes show, it seems to be a consequence of a heritage of strong networks and personal bonds between managers of subcontracting firms and the people in the managerial positions in Škoda.

"The relations with Škoda are so good that we can say: "we need 'x' now..." And they will help us. On the other hand they might forget something and we help them by producing it overnight. These are the advantages of being right next to each other [12 kilometres apart] and also of the fact that our relationship

goes back many years." (interview with a manager of Metalpress, a company that used to be a branch plant of Škoda, 13.6. 1997)

"We have the advantage in the form of contacts we have there [in Škoda]. Today it is not enough to cooperate with their designer, their R&D or their purchasing specialist. You have to communicate with their department of quality, technical department, those responsible for the project and with other people in other departments." (interview B with a manager of T-Plast, a company whose former general manager used to work as a production manager in Škoda before 1990, 5.6. 1997)

"Contacts with Škoda were traditionally very close. Even personal because people knew each other from the times when we were a branch plant [of Škoda]. People used to go to the same meetings. [...] The relations used to be very close and, I would say, familial. And in some cases it has remained like this until present because people are the same and some have known each other for twenty years." (interview B with a manager of Airdoors, a company that used to be a branch plant of Škoda, 13.5. 1997)

The fact that in each case the managers entered the post-Communist period with a slightly different network heritage and different quality of personal ties with Škoda had an important impact on the way the internationalization of Škoda transformed their own action frameworks. The quality and stability of these networks allowed local managers to mediate the meanings of internationalization presented by VW. Through personal interventions and interactions in these networks, the meanings of imported practices were translated by local managers and selectively combined and accommodated into their existing action frameworks. In this way, and despite the seeming uniformity of the criteria imposed by VW, elements of local action frameworks entered into the process of shaping a 'softer' meaning of internationalization in these firms. The exceptional quality of their networks thus allowed some managers of local subcontractors to align their own interests with those of Škoda, and to enrol their partners in Škoda in a translated meaning of internationalization which allowed them to see it as a process bringing benefits to both sides. Nevertheless these translated meanings of internationalization did not usually involve the enrolment of other local actors, other local firms or members of local authorities. The process of adaptation to internationalization was thus limited to the managers of subcontracting firms themselves. Moreover, this process has not been universal amongst the local suppliers, but has been limited to a small number of them which had good personal contacts in Škoda.

Secondly, some suppliers of Škoda seemed to have developed stable relations with other partners than Škoda-VW. These networks provided local managers with an alternative understanding of an acceptable practice and gave them scope for 'softening'

the harsh criteria advocated by VW. This group of firms is quite heterogeneous and consists of two distinct subgroups.

On the one hand, there are the two suppliers mentioned previously as having opted for a 'Czech way' of restructuring without foreign partners. The management of these firms openly admitted to a negative experience with foreign investors and instead they expressed a strong appreciation for local networks. Interestingly, they are also the companies with the greatest degree of diversification of sales which are mostly directed to export markets. These firms are thus less dependent on Škoda as their main customer. Moreover, they are the companies with the largest locally-based R&D departments from the sample and their managers seemed to have used their domestic and local networks to enrol other local firms, as well as research institutes, in the process of adaptation to internationalization. Through their networks they could mediate the meanings of Western practices imported through VW or other Western partners. These new international practices and networks were, in turn, more or less successfully integrated into the existing action frameworks of these firms as well as those of their Czech partners (interviews with managers of ASO and SAP). Subsequently, the managers of these firms created an alternative understanding of internationalization which prevented them from accepting uncritically the practices advocated by VW.

On the other hand, the foreign automotive firms coming to the region as a part of the secondary internationalization also played an important role as a source of alternative interpretation of international practices. Quite often these foreign partners entered into cooperation with the local subcontractors of Škoda with expectations and understandings which diverged from those of VW. There is some evidence that a more open and trusting attitude gradually developed in the relations between these foreign firms and local managers. Although the management of local subcontractors usually lack the strong local networks of the Czech-owned suppliers, it seems to be the networks with their foreign partners through which the alternative meanings of Western capitalist practice were created (interviews in General Plastics, KOB Electric, Airdoors). The persistence of action frameworks incompatible with the interpretations officially

advocated by Škoda-VW can then be explained by the specific character of relations with Western partners other than VW.

Most local managers of foreign-owned suppliers initially had a fairly restricted position in translating the meanings of internationalization. However, their interaction with Western partners was a dynamic process which developed over time (interviews in KOB Electric, Autobrakes, T-Plast) in a way not dissimilar to the learning process observed directly in the Škoda-VW by Dörr and Kessel (1996). These authors explain that in the initial stage after the takeover of Škoda, German managers were highly sceptical and cautious to use any local routines, practices and informal networks. Instead, they had the tendency to dictate to Škoda's employees their own accustomed ways of doing things. Later on, through a daily communication and interaction, most German managers started to appreciate the role of the locally-specific action frameworks. This recognition increased mutual understanding and eventually led to an adjustment of practices and an alignment of interests on both sides (Dörr and Kessel, 1996, 1997).

The next two quotes indicate that a similar process is under way among some of the local subcontractors of Škoda. Their foreign partners slowly came to realize the potential of the skills and practices of local managers, as well as the potential of networks they control within their enterprises and in other local firms.

"The Czech managers are slowly gaining a good name with foreign investors. And these days many of them even work in the headquarters of big foreign firms." (interview with a manager of Autobrakes, 14.5. 1997)

"The system of first rank suppliers [of Škoda] is still being built up. And so the [foreign] firms start to establish themselves locally because so far they have been largely supplying from abroad. [...] And now also these firms that came here start to build up their technological and design background locally to make sure that they are not just assembly plants; that they are capable to provide the customer [i.e. Škoda] with a complex service - from design and construction of plans, production of tools and equipment, supply of samples and everything leading to mass production." (interview B with a manager of T-Plast, 5.6. 1997)

Some of the managers of local automotive firms thus apparently persuaded their foreign partners about the usefulness of their networked heritage and action frameworks. Or, from the other side, the foreign partners discovered and appreciated the potential of local skills, networks and ways of doing things to such an extent that they started to shift some of their core activities from the West to the region of Mladá Boleslav to support their production facilities there (interview B with a manager of T-Plast). The existence

of this phenomena suggests that the local managers together with their foreign partners started to look for ways of adjusting their differences which produced an alignment of their interests (Callon, 1991) and an agreement on a mutually acceptable meaning of internationalization. The process of translation allowed local actors to retain elements of their old practices and networks, enrich them by the imported Western practices and networks and combine the two in an innovative way (interviews in KOB Electric, T-Plast, Autobrakes).

The Western partners subsequently provided local managers with an opportunity to avoid excessive dependence on Škoda through a diversification of sales (interviews in KOB Electric, General Plastics, Autobrakes). Similar to the Czech-owned suppliers, the networks with foreign partners and the process of translation thus helped these firms to 'soften' the competitive pressure from Škoda-VW by creating alternative meanings of internationalization. Moreover, the process of translation and the alignment of interests also enabled local firms to draw on the extensive networks of their new Western owners and use them as a source of new practices and technologies (interviews in T-Plast) or as a source of R&D (interviews in General Plastics and KOB Electric). Although at present these firms often lack extensive local networks and the process of their adaptation does not involve other local actors, the links with foreign partners alone might prove to be a sufficient basis for their future adaptation.

The two explanations of the discrepancy between the character of internationalization advocated by VW and its actual impact on the action frameworks of local automotive firms have an important common feature. The findings for both groups of firms suggest that VW's highly competitive ideal was softened by the *process of translation*, thereby creating a subcontracting practice based on alternative meanings of internationalization. There are, however, also important differences in the way internationalization has been translated and mediated by managers of Škoda's subcontractors.

Firstly, there is a small group of Czech-owned firms that rely increasingly on contacts with other Czech as well as foreign firms. The use of diverse local and domestic networks has allowed them to mediate the meanings of internationalization,

spread them through their networks and enrol a great variety of actors in a reinterpretation of their action frameworks. These firms thus adapted themselves to the process of internationalization and enrolled diverse local and domestic actors in the process of that adaptation.

Secondly, there are foreign-owned local suppliers whose managers used either their good networks with Škoda or their networks with foreign partners (some used both) in a process of mediating the meaning of internationalization. The managers of these firms successfully enrolled either representatives of Škoda or their foreign partners in their translated meaning of Western practices. The immediate effect of such a mediated form of internationalization was usually beneficial for the local firms. The processes of translation and enrolment enabled local managers to access and utilize a pool of practices, capabilities and resources of Western partners which sometimes resulted in innovative forms of action. However, the managers of these suppliers customarily had a neutral or even negative attitude towards local networks (interviews in General Plastics, Airdoors, Autobrakes). Since the Czech management of these firms simply did not need the support of local actors and networks for their own recognition, their attempts to translate the meanings of internationalization had a limited local 'reach' and typically involved enrolment of only a small number of local actors (usually just the local managers themselves and some of the more skilled designers and technicians).

Also, in this latter group the activities of managers resulted in a successful adaptation of their firms to the process of internationalization. For the most part, however, this adaptation has not stimulated diverse local responses which could have triggered locally-based innovations. Unlike the form of adaptation to internationalization described in the two Czech-owned suppliers of Škoda or in the case of Lanškroun, this case represents an adaptation dependent largely on external networks. It is an adaptation more similar to that described by Smith and Ferenčíková (1998) in their study from central Slovakia where "foreign investment has not been the catalyst to the development of local production linkages" and its benefits have been restricted to "a small, core group of technicians" (p. 167). Such a form of adaptation is usually quick

and in the short term beneficial to the company, but it often represents a one-off adaptation which does not lead to a sustained and autonomous ability to innovate.

Towards homogeneity: importing Western enclaves

So far it has been mentioned that there are two segments or groups of Škoda's suppliers which can be distinguished in the region of Mladá Boleslav. In both the Czech-owned suppliers as well as in the foreign-owned ones their managers tried to adjust the official practice advocated by VW and, in one way or another, translated the meanings of internationalization. However, the empirical work also discovered another segment of suppliers present in the area where much less positive developments have been observed.

Several subcontractors of Škoda accepted the 'dictate' of Škoda's competitive pressure at its face value, as they seemed to have focused simply on cost competition and the squeezing of labour costs. The local managers in these firms represent some sort of 'transmitters' or 'distributors' of Western models of management. Internationalization, in the case of these subcontractors, has usually meant an import of both technological equipment and organizational practices with little concern for the specific character of local action frameworks. This development can be described as a 'substitution' of one action framework by another whereby Western practices are imported without much effort to negotiate and mediate the differences between them and the existing, locally-specific ones. Such substitution typically makes suppliers very adaptive and flexible in the short term and has been quite successful in allowing them to meet the quality and price standards of Škoda-VW. However, these highly labour intensive firms produce goods in assembly plants with no local R&D at all and their only competitive advantage is low production costs. Typically they also have very few effects on the locality beyond direct employment (interviews in UCJ and Supercable).

The *uncritical import of Western practices*, the simplified understanding of the notion of market and market rationality, together with a low degree of respect for local networks characterize the action frameworks of people who manage these firms (interview in Supercable). These characteristics are then responsible for the virtual

absence of a mutual adjustment between local and Western actors. The opportunity to use internationalization as a means for a mutual redefinition of actors' positions and a reinterpretation of their systems of meaning (Callon, 1991; Murdoch, 1995) is missed because the local actors are largely ignored and not represented. The potential to create new interpretative opportunities (Sabel, 1994) and develop locally-based sources of innovation and competitiveness is therefore wasted. A classic example of this problematic form of internationalization is summarized in the following quote:

"We produce whatever our customer department [in Germany] manage to get [i.e. which contracts they win]. We are entirely flexible. And it depends on them which of the customer orders are placed here. [...] This type of production does not have any high demands on R&D [...] It is a matter of production costs, that is mainly of labour costs." (interview with a general manager of Supercable, 28.5. 1997)

This quote suggests that this particular firm is in the position of a classic branch plant, without any autonomous decision-making powers and with only a limited ability to influence its future development. Such firms, although not very numerous in the sample, still comply with the form of internationalization advocated by VW. They deliver goods at low cost and in high quality, but they are likely to remain vulnerable if the economic circumstances were to change. As such they epitomize the problems of foreign investment that represent 'institutional clones' of Western firms recently criticized by Grahner (1994, 1997) or Swain (1994).

It would be wrong, however, to equate this form of internationalization with all foreign-owned suppliers of Škoda. There is evidence that neither all greenfield foreign investment (interviews in KOB Electric and T-Plast), nor all foreign takeovers (interviews in General Plastics and Metalpress) necessarily fit into the category of a foreign branch plant stereotype. The empirical findings thus contradict any 'structural' explanation of the impact of internationalization based on either the forms of ownership or the type of investment. They confirm that it is the character of the cultural processes of translation and enrolment which decide the outcomes of internationalization; that is, the ways in which actors reinterpret the meanings of international practices and accommodate them into their action frameworks.

Summary of findings: towards a fragmentation of the region institutional set-up

The effects of internationalization in the Mladá Boleslav region have been very diverse. This diversity reflects differences in the networked social capital of local managers, especially their contacts with the management of Škoda, and the specific interactions of their social capital with the symbolic capital of Western investors. These interactions took the form of cultural processes of enrolment and translation which produced different, more or less mediated meanings of internationalization.

However, the process of internationalization was mediated by local actors largely independently of each other. The combined effect of a lack of communication between local automotive firms and the competitive pressure of VW which played them against one another resulted in their isolation and the seeming incompatibility of their respective action frameworks. The consequence of this isolation and a lack of alignment between diverse local action frameworks is a *fragmented* regional institutional set-up. In particular, the form of internationalization advocated by Škoda-VW had impeded the communication between different groups of actors and Škoda's inability or unwillingness to produce a perfect translation and enrol local firms in a shared interpretation of internationalization has split the regional economy into an isolated set of enterprises.

On one side, there is a small group of Czech-owned suppliers who diversified their networks by independent expansion abroad and decreased their dependence on Škoda. The managers of these firms rely on a diverse portfolio of networks with Western partners or customers which they use as a source of local recognition and an alternative meaning of internationalization. At the same time, they have also cultivated their local networks through which they have enrolled a substantial number of local firms and research institutions in the adaptation to internationalization. As such, the action frameworks of these firms appear to represent an innovative and economically successful mixture of local and Western practices, networks and meanings.

Then there is the largest group of local suppliers who are foreign-owned and generally lack the rich heritage of locally-based networks. The management of these firms achieved an alignment of interests and understandings either in their relations with Škoda, or with their foreign owners. This, in turn, allowed them to mediate and translate

the meaning of internationalization. However, the process of translation mediated by these managers did not usually have a substantial local 'reach' and did not create a shared collective interpretation of Western practices among other local firms and actors. Nevertheless, this particular translation still seems to align the action frameworks of the local managers with those of their foreign partners and thus enables local firms to use the networks of their Western partners as a means of responding to change. This institutional arrangement may become a source of competitiveness for the automotive suppliers in the Mladá Boleslav region, even though they do not have a strong attachment to their locality. However, the lack of enrolment of other local actors suggests that these firms will not be able to sustain the production of new interpretative possibilities (Sabel, 1993, 1994) in the long term. These firms might therefore be competitive and able to adjust to change thanks to their international networks, but they are less likely to become independent and innovative international players (Grabher, 1994, 1997).

Finally, there is also a relatively small segment of local suppliers that come very close in their character to the institutional 'clones' of Western automotive branch plants rightly criticized by Grabher (1994). These suppliers simply transplanted Western practices, technology and organizational principles to a local context and removed the existing ones. Such firms compete successfully at present, but their future seems largely dependent on the low cost of local labour as their main competitive advantage. Their system of rigid and imposed practices is entirely dependent on their Western owners and is unlikely to adapt independently to alternative practices in the future.

The process of internationalization thus brought a great variety of new, international networks and practices, meanings and understandings in the region of Mladá Boleslav. However, the process of adaptation to and accommodation of such meanings and practices has not been particularly inclusive and has not been translated locally into a shared system of meanings. Instead, the process of internationalization in this region resulted in a highly diverse, but not very well integrated, *fragmented institutional set-up*. It produced a juxtaposition but not an integration or an alignment of the diverse action frameworks present in the region. As such, the regional economy of

Mladá Boleslav is characterized predominantly by isolated pockets of adaptive, internationally connected, but not very innovative firms.

CONCLUSION: ADAPTABLE OR ADAPTIVE REGION?

The takeover of Škoda by the German car manufacturer Volkswagen had a series of very important consequences for the whole region of Mladá Boleslav. It triggered a major wave of secondary internationalization as many other Western automotive firms started to flock into the area and looked for potential partners among local suppliers of Škoda. VW's investment thus secured the continued production of the technologically advanced products in Škoda and made negotiations of local suppliers with foreign investors easier. This development was also responsible for the exceptionally low levels of unemployment in and around Mladá Boleslav. So far, these effects have been observed as positive and generally in line with the aim of the Czechoslovak Government to use the sale of Škoda as a tool for reinvigorating the local automotive industry (Žák, 1997; Cook, 1998; Martin, 1998).

Under closer inspection, however, the impact of internationalization on the action frameworks of local actors looks much more ambiguous. In this chapter, it has been demonstrated that the relative ease with which the managers of local subcontractors of Škoda attracted Western partners and gained legitimization of their positions was also one of the reasons why these managers often lost interest in local networks. Furthermore, the method of global and forward sourcing applied by VW to its suppliers restricted communication among local firms and exacerbated their isolation from local networks. The process of internationalization thus produced a fragmented regional institutional set-up.

This institutional set-up is characterized by a great diversity of action frameworks. In some cases there are worrying indications of institutional 'cloning' (Grabher, 1994, p. 177). Through this strategy foreign investors are trying to increase the competitiveness of local automotive firms by simply replacing existing practices and networks with imported Western ones. In other cases, a few Czech-owned firms

combined elements of their own action frameworks with the process of internationalization in a complementary and innovative way that seems to go a good way towards them developing into independent, internationally competitive players.

However, neither institutional cloning nor the successful internationalization of locally-owned firms present the dominant type of internationalization in this region. The greater part of Škoda's suppliers are foreign-owned companies in which the activities of local managers produced a degree of alignment of their interests and those of their foreign partners or/and of Škoda. These 'softened' the original form of internationalization advocated by VW and enabled the local managers to translate the meanings of internationalization. Nevertheless, such activities remained largely restricted to the boundaries of individual companies and the process of adaptation has been restricted to negotiation and the mutual adjustment of practices between a small group of local managers on the one side and their Western partners and representatives of Škoda-VW on the other. In other words, the process of translation has had limited 'reach' within the locality and resulted in a one-off adaptation which failed to enrol a diverse range of other local actors.

The process of internationalization thus made the adaptability of most local companies dependent on a limited number of mostly external networks. These provide access to strategic information or sources of Western R&D and might secure a sufficient inflow of alternative practices essential for future adaptation and competitiveness. Such an arrangement together with the high skills and levels of qualifications, as well as the low labour costs, thus make the short term competitive prospects for most local automotive companies look good. The problem is that their adaptability and competitiveness are dependent on an inflow of practices and meanings through external networks over which the local actors have only a limited control. This is caused by the isolation of local actors and firms from each other; by the fragmentation of a regional institutional set-up which reduces the ability of local actors to use novel practices and meanings for the locally-based collective reinterpretation of their action frameworks. The present situation is at least partly a product of the Škoda-VW's attitude which apparently wants to keep its local subcontractors as a flexible source of cheap supplies

and prevents them from communicating with each other. The fierce competition advocated by VW then makes an alignment of interests among local actors difficult and unlikely.

The regional set-up of Mladá Boleslav consists of a great diversity of action frameworks with a variety of networks, practices and meanings. However, its fragmented character prevents local actors from drawing freely on this institutional diversity and from creating independently new, innovative interpretative possibilities (Sabel, 1994; Amin and Hausner, 1997; Grabher and Stark, 1997b). The automotive region of Mladá Boleslav thus seems to be *more adaptive than adaptable* (Grabher, 1993b, c, 1997). Local actors are able to access diverse international networks through which alternative practices and meanings can be mobilized and used as a means of adaptation, but the region is unable to 'hold down' the process of internationalization (Amin and Thrift, 1994b) because its fragmented set-up reduces the potential for locally-based innovativeness and long term adaptability.

CHAPTER EIGHT: THE REGION OF ROŽNOV: THE IMPORTANCE OF LOCAL MEDIATORS FOR REGIONAL ADAPTABILITY

INTRODUCTION

The last case study takes us to the small region of Rožnov pod Radhoštěm in Eastern Moravia. The present chapter focuses upon a regional economy which, unlike the two previous ones, underwent a deep economic crisis in the first half of the 1990s. It documents the privatization and the economic collapse of the dominant local employer Tesla Rožnov, and its break up into 15 independent firms. The focus of empirical research, however, is not on all the 15. Rather, the chapter concentrates on two major groups of firms referred to here as the 'successors' of Tesla Rožnov. Each of the groups pursued one of the two major manufacturing programmes of Tesla Rožnov: the production of semiconductors (silicon wafers, chips and integrated circuits) and the production of vacuum components (mainly TV tubes and TV sets). Although all the firms in these two groups have their origins in the former Tesla Rožnov, they nevertheless represent a diversity of transformation paths, in particular by virtue of the fact that the process of internationalization played very different roles in each of them. The results of their transformation range from a successful internationalization through foreign takeover to independent internationalization of locally-owned firms and from a successful expansion to the mere survival of some firms and the bankruptcy of others. The differentiated impact of internationalization on individual firms within one region, therefore, makes the Rožnov case study a particularly interesting object for analysis.

The aim of the chapter is to explain how the process of internationalization has been mediated and its meanings translated by individual actors and to demonstrate that the differences in the character of local mediation can produce institutional arrangements with a highly varied degree of adaptability. Moreover, the case study also shows that internationalization may create diverse prospects for the adaptability of local firms, despite the relative homogeneity of their initial conditions. The example of

Rožnov thus demonstrates that in the volatile environment of post-Communism, the ability (or inability) to mediate the meaning of internationalization through the processes of enrolment and translation can be a matter of survival or death for some industrial enterprises and perhaps even for whole regional economies.

The first sections of the chapter chart the history of Tesla Rožnov and its important role in the industrialization of this peripheral part of the Czech Republic. Then they describe the complex privatization and break up of Tesla Rožnov and set the scene for the analysis of the key electronics subsectors that survived the death of Tesla Rožnov - the semiconductor and the vacuum components. The following two sections analyze the processes which transformed the forms of embeddedness of Tesla's 'successors' during the regional economic crisis of the early 1990s. The diversity of attitudes towards and understandings of the process of internationalization among local managers is analyzed in terms of interactions between the managers' networked social capital and the different forms of symbolic capital. The last two sections of the chapter look in more detail at how the process of internationalization has affected and transformed the action frameworks of local managers in the two major groups of Tesla's 'successors'. They analyze the ways in which the process of internationalization was translated locally into a system of meanings and practices specific to each of the groups of Tesla's successors. It is explained here how the actions of individual managers transformed the local institutional set-up and created diverse preconditions for the long term adaptability of their firms. The chapter concludes by assessing the prospects for the future adaptability and competitiveness of the whole regional economy of Rožnov.

FROM RURAL PERIPHERY TO A HIGH-TECH REGION AND BACK?

History of Communist industrialization in Rožnov

The town of Rožnov pod Radhoštěm is located in Eastern Moravia in the region called Wallachia (see figure 6). This part of the country adjacent to the Slovak border is located in what has traditionally been the most peripheral part of the Czech Republic.

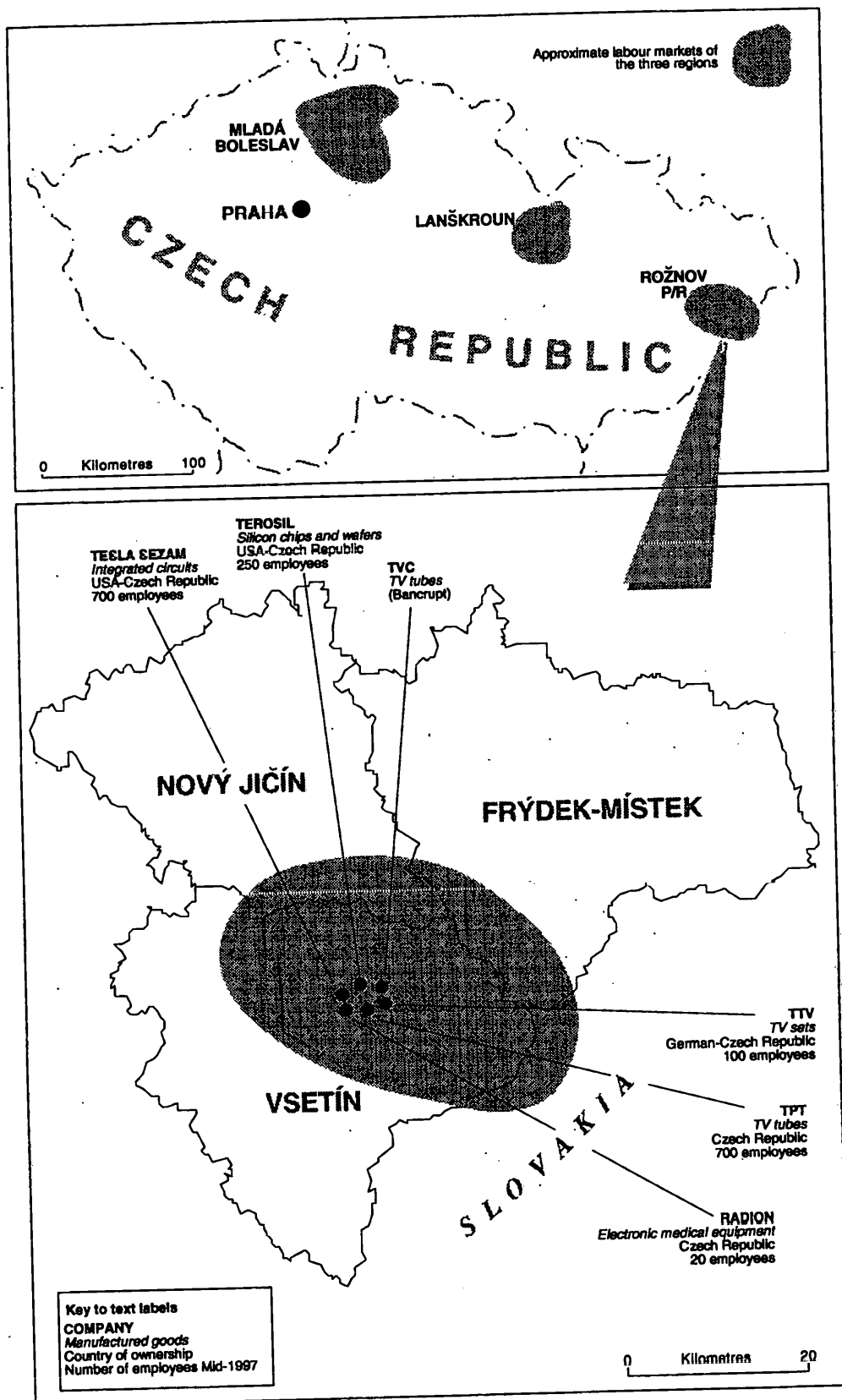


Figure 6: Local labour market of 'successors' of Tesla Rožnov

Pastoralism, subsistence farming and later on a basic tourist industry were the main economic activities in the area long into the twentieth century. Until World War II, Wallachia was one of the poorest and least industrialized regions in the Czech part of Czechoslovakia, characterized by high rates of birth, unemployment and emigration. This was also one of the reasons why the Communist regime, with its stress on equality and levelling of regional differences, decided to 'stabilize' the local population by providing new local jobs in the industry. In 1949, the greenfield investment project of an electrical engineering plant called Tesla began in the small town of Rožnov, right in the middle of a mountain valley, among the pastures and smallholdings of Wallachian farmers.

The Communist policy of industrialization was relatively successful in the case of this rural periphery. The attractive natural surroundings and possibilities of getting a flat in the newly built housing estate brought many technical graduates from Prague and other cities to Rožnov (interviews in Terosil). Also many graduates of the newly established Rožnov electro-engineering secondary school who left to study electronics and other technical disciplines at universities elsewhere were returning to the town and found jobs in Tesla. As one of the interviewees (who himself joined Tesla as a young recruit in its early days) commented on that period:

"There were plenty of people here who really enjoyed the work [in Tesla]. And also there were quite a few people who came to here from Prague who knew a lot about how things were done abroad and who helped to establish the company. And the Wallachians learned and caught up quickly." (interview with former general manager of Terosil, 23.5. 1997)

The company traditionally enjoyed very good relations with the Czechoslovak Ministry of Electrical Engineering as several people who initially helped to set up Tesla Rožnov later progressed up to high ministerial ranks (interview with a former general manager of Terosil). Largely thanks to these contacts, and partly also due to its central location in the former Czechoslovakia, the management of Tesla lobbied successfully for the location of a major electronics investment project in Rožnov in the 1970s.

This was another major breakthrough in the history of Tesla Rožnov and the whole region. A massive investment project was launched with the aim to create the most advanced and high-tech electronics enterprise in the country. The two strategic production programmes were semiconductors and vacuum components. Heavy spending

on R&D made Rožnov a location with a truly high-tech status in the former Czechoslovakia. The industrial investment was, according to the logic of Communist planning, accompanied also by the construction of a large new housing estate which increased the number of Rožnov's inhabitants by nearly 70 per cent between 1970 and 1990 to its present level of 18,000 people. In the 1980s, Tesla Rožnov was at its highest point in terms of size as well as economic and political power. The enterprise employed at different times between 8,500 to 10,000 employees (different interviews) many of whom were commuting daily from the villages in the mountain valley and even from the adjacent parts of Slovakia. The town and the whole region became almost totally dependent on the developments in Tesla. The managers of Tesla - unlike the fairly powerless local council - were able to mobilize enormous resources at the national level for the benefit of the locality (comp. Illner, 1992a) and had the networks as well as the power to transform the town and its surroundings. This was the time when "Rožnov was just another word for Tesla" (interview with former general manager of Terosil, 23.5.1997).

The power of Tesla Rožnov was not restricted only to its immediate region. It also controlled several branch plants around the country. Even more important was the fact that in the early 1980s, in connection with the huge investment project, the company was chosen as the headquarters of VHJ Tesla Rožnov, a conglomerate of Tesla Rožnov and another four Czechoslovak electronics enterprises (including among others also Tesla Lanškroun). The VHJ together employed some 36,000 people and was responsible for the whole electronics industry in the former Czechoslovakia. Tesla Rožnov thus became one of the most important and powerful enterprises in the country and, indeed, in the whole of the Communist block.

As was typical of large industrial enterprises in the Communist times the production programme of Tesla Rožnov was very wide indeed. The portfolio of activities ranged from production of semiconductor materials, semiconductor components (mainly integrated circuits) and vacuum components, to electronic equipment for industrial control, equipment for medical and scientific purposes, measuring and testing equipment, design and production of specialized machinery for its

diverse production lines and a few smaller specialized activities. All of these products were supported by a massive R&D base.⁴⁹

The company, like many similar enterprises of Communist times, comprised numerous departments with diverse activities. Apart from those activities directly related to its highly diverse production programme, Tesla was also involved in a large number of activities which in Western firms would be subcontracted.⁵⁰ This was a widespread strategy intended to provide for a maximum self-sufficiency and to smooth the production process (see e.g. Pickles, 1998; Smith and Swain, 1998).

On the other hand, Tesla did not have a sales department as it was not producing any consumer goods and the majority of its products were delivered according to production plans as inputs to other electronics industry enterprises, either in Czechoslovakia or in other COMECON countries. The little that was produced over the planned quotas of deliveries to other industrial companies, was exported to the non-Communist markets through a state-owned foreign trade company Kovo. Tesla thus had very little control over its sales networks and, according to several interviewees, often did not know the customers to whom their products were sold.

At the end of the 1980s, Tesla Rožnov ended up with massive debts of 2 billion Kč (about 40 million pounds) from its ambitious investment projects. The company was supposed to pay off the debts from its future profits realized on the domestic and COMECON markets. These plans, however, were interrupted by the anti-Communist coup of 1989 which changed the political system as well as undermined the privileged position of Tesla within the system of central planning.

⁴⁹The R&D department of Tesla Rožnov employed some 1,600 people and was one of the largest among industrial companies in Czechoslovakia. The legacy of this is reflected in the fact that even today there are 3 per cent more university graduates in the population of Rožnov than is the Czech national average (Local council of Rožnov pod Radhoštěm, 1998). Although the size of Tesla's R&D department is certainly impressive; some interviewees expressed scepticism about its effectiveness saying that 1,000 of the 1,600 employees were actually not doing anything (interview with general manager of Tesla Sezam).

⁵⁰These included the production and trade in chemicals and technical gases used in the production of semiconductors, the recycling and processing of precious metals used in some of its production processes, or the production and distribution of heat, water, gas and electricity with which Tesla also supplied the whole town of Rožnov. Furthermore, Tesla was also an owner of a local secondary school specialized in electronics, of a kindergarten, a local stadium and several hotels. It had its own transport department, its catering department, and also a construction department which built and maintained much of the Rožnov housing estate constructed in the 1980s.

Collapse, disintegration and privatization of Tesla Rožnov

The economic collapse of Tesla Rožnov that followed shortly after 1989 was faster than in most other industrial enterprises. In fact, Tesla Rožnov experienced a sequence of shocks that hit the company one after another. The first shock came in the form of a collapse of the Eastern European markets. By 1992, both Soviet and East German firms which represented the largest foreign customers of Tesla Rožnov either ceased to exist (former GDR) or stopped paying for the deliveries (former USSR). This was particularly bad news for the semiconductor department of Tesla which supplied over a half of its production to foreign markets (interviews in Tesla Sezam and Terosil).

The second shock occurred almost immediately after the first one: the opening of the Czechoslovakian market to Western goods in 1990-91 very soon revealed that the massive investments in Tesla Rožnov were sunk into technological equipment that was only capable of 'competition' in the shielded markets of Communist countries. Tesla with its somewhat dated products found it very hard to compete with highly competitive Western firms. This was especially acute in the area of consumer electronics, particularly in the production of TV sets. Although Tesla Rožnov itself did not produce TV sets, its vacuum components department was nonetheless largely dependent on sales to the Slovak TV manufacturer Tesla Orava. Before 1990 the domestic demand for TV sets from Tesla Orava, and consequently also for Tesla Rožnov's supplies of components, surpassed supply and people had to wait several months to buy a TV. However, in the early 1990s the TVs produced by Tesla Orava were becoming hard to sell and Tesla Rožnov was forced to reduce its output of TV components (interviews in TVC and TPT).

As the situation worsened, Tesla Rožnov ran into serious problems and had to stop several of its key productions. This situation was common in many other parts of Czechoslovakia. The worrying aspect was that both the key production specialities of Tesla Rožnov ran into trouble so suddenly and almost simultaneously. Additionally, there was the enormous debt that Tesla was supposed to pay off. To make matters even worse, the sheer size of Tesla had become a huge social problem in an area with very few alternative employment opportunities. Rožnov suddenly turned into problem region

number one in the Czech Republic with record unemployment rates (OECD-CCET, 1996). Between the years 1990 and 1991, when elsewhere in the Czech Republic unemployment was still a rare occurrence, the number of redundancies in Tesla reached about 2,400 in a town that previously provided around 12,000 jobs (Okres Vsetín, 1994). By 1992 the number of Tesla's employees dropped to some 5,000, just about a half of the previous level and, according to one of the interviewees, the number of unemployed in the region reached nearly 6,000 (interview with general manager of Terosil). At the same time, the future of the remaining jobs in Tesla was highly insecure and several thousand more were threatened with job losses. Such was the situation at the beginning of privatization which itself spelled the end to Tesla Rožnov.

Rather surprisingly the attitude of the Czechoslovak Government was not helpful at all. The post-Communist Government of Czechoslovakia was mainly interested in breaking the strong ties between large enterprises and the sectoral ministries. Since several ministers of the Government at that time deemed the electronics industry as a whole unreformable and uncompetitive with Western products, they refused to grant the manufacturers in this sector any protection or help. On the contrary "the electronics industry was labelled as 'class enemy' number one." (interview with general manager of Tesla Sezam, 6.5. 1997) and the Government decided to liberalize foreign trade immediately thus enormously increasing competition on the domestic market (interviews).

Reflecting on this period most managers were quite bitter as this quote shows quite clearly:

"The Government declared: "the electronics industry will not be needed any longer". They argued that the industry did not have any perspective, that it did not have a good standard anyway. And they simply ceased to support the industry completely and sacrificed it all." (interview with former general manager of Terosil, 23.5. 1997)

The attitude of the post-Communist Government entirely undermined the power of the management of Tesla Rožnov which was built around its strong networks with the governmental bodies of the previous regime. The post-1989 economic transformation also revealed another problem: Tesla Rožnov entirely lacked its own sales networks and had no experience in selling and marketing its products whereas these suddenly

appeared to be a much more important source of power. However, the old management of Tesla Rožnov initially seemed not to understand this. Their attitude was split between a mixture of pride for local achievement and the fear of the huge responsibility for the local community that prevented management from a radical action. This group of old managers perceived the size of their enterprise as a major source of bargaining power and they did not want to be seen as those responsible for its disintegration. This thinking, as the following quote confirms, largely determined the transformation strategy in the early years of post-Communism:

"The management at the revolutionary times [i.e. immediately after the events of 1989] had a vision that they will be able to put the whole enterprise in order again. But then they realized that it was really impossible to walk against the wind... They had the idea that at least their name will not be associated with a liquidation of this enterprise that has been here for 35 years. But it was an entirely foolish idea. So then they thought that as long as the whole disintegration can be coordinated from above [i.e. by the top management] the enterprise would not be liquidated and they would be able to run away from it without taking any responsibility." (interview with general manager of Tesla Sezam, 6.5. 1997)

As this effort proved futile the majority of managers accepted that the company could not be reformed at its present size. What followed was a rather chaotic break up of the enterprise. Changes in the top management became a common place, often under pressure from the powerful trade unions, the enterprise lost leadership, several new companies broke away from Tesla in an attempt to go private but later merged with Tesla again (interviews).

Finally, in May 1992 after long negotiation Tesla Rožnov ceased to exist and was split into fifteen new companies, the 'successors' or 'posthumous children' of Tesla as they are commonly referred to by the local people. Out of the fifteen new firms there were nine limited liability companies with a small size of inherited property (under 50 million Kč of inherited assets, i.e. just under 1 million pounds).⁵¹ The major part of the Tesla's property, however, was transferred into six joint stock companies only three of which were actually manufacturing firms.⁵² The three manufacturing joint stock firms

⁵¹Two of them produce specialized machinery used in the manufacturing of electronic components, two others produce chemicals, two specialized in the production of medical and measuring equipment, one in construction, and two remaining limited liability companies were from the beginning intended for liquidation as the 'dust bin' companies with some of the Tesla's debts and with the property that was impossible to sell (Okres Vsetín, 1994; Tesla Sezam, undated; database of Ministry of Justice).

⁵²Out of the three remaining non-manufacturing joint stock firms one acquired the property of Tesla related to its service industries - catering, hotels, transport. Another one privatized the energy, heat, water and gas network of Tesla, and the last one privatized the department of construction and construction design (Okres Vsetín, 1994; Tesla Sezam, undated; database of Ministry of Justice).

inherited the crucial parts of the Tesla's production programme which the top management thought capable of independent existence. These were the production of vacuum components (mainly TV tubes), which was transferred to a company called Tesla Vacuum Components (TVC), and the production of semiconductor technology which was split between semiconductor materials (silicon wafers in Terosil) and semiconductor components (mainly integrated circuits produced by Tesla Sezam).

The firms with limited liability were generally much smaller units (at the time of their establishment they employed together some 1,500 employees) and were privatized by direct sales for cash. The much larger joint stock firms (in 1992 the six companies together inherited some 5,000 Tesla's employees) were far too expensive for any individual to buy and therefore were set aside for the voucher privatization programme. It was also these companies that took over the largest part of the debts of Tesla Rožnov because the debt was split according to the book value of the 'inherited' property (interviews; Okres Vsetín, 1994; Hoppenstedt Bonnier, 1996, 1997).

Given the serious problems and bleak prospects for Tesla many qualified people started to leave the company during this stage. Most of them established their own businesses, often based on the skills and abilities they acquired in Tesla such as small firms of locksmiths, bricklayers and so on. Quite a few also established small electronics firms with specialized production, usually with just a handful of employees and with links to one or several bigger 'successors' of Tesla. However, in 1992 when Tesla was breaking up, these firms had only a limited capacity to absorb the redundant workers. The major part of the population of Rožnov region was thus dependent on the future of the three large manufacturing joint stock companies that, at the time, employed together some 4,000 local people.

The developments in the three electronics joint stock companies will be the primary concern of the rest of this chapter. First, because they represent the continuation of the major electronics production programmes of Tesla Rožnov, and second, because they also 'inherited' the bulk of the employees of Tesla Rožnov. The transformations of these three new companies therefore became decisive for the future of the Rožnov region and for the majority of its inhabitants. The small 'successors' of Tesla will only be

mentioned and referred to as long as their networks and activities are related to the transformation of action frameworks and the restructuring of the network heritage of the three major manufacturing joint stock companies.

The split of Tesla Rožnov introduced a whole new set of actors - the new owners and managers of the Tesla's 'successors'. These were mostly local people who often worked previously in the lower managerial ranks of Tesla or as its designers and technicians. Despite their common past, however, their understandings and interpretations of the new economic situation differed substantially. The different understanding of individual new managers were reflected in their different strategies of securing symbolic capital and recognition. Some of the new managers were now much more in favour of international contacts than the old management of Tesla, which had hoped for a state intervention and a revival of the Eastern markets. Some managers in Rožnov even saw Western partners and investors as the only way of survival for their companies. Yet others still decided to rely on networks with state bodies and traditional customers. Also, the attitudes towards the heritage of local networks in Rožnov differed substantially among managers of the 'successors' of Tesla.

The following sections analyze the divergent restructuring paths of the two major groups of electronics manufacturers in Rožnov. They seek to explain their diverse experiences with the process of internationalization and the transformation of local action frameworks as the outcome of interactions between the networked social capital of the new managers and different forms of symbolic capital and recognition.

SOCIAL AND SYMBOLIC CAPITAL: DIVERSITY OF UNDERSTANDINGS AND ATTEMPTS AT INTERNATIONALIZATION

The results of the voucher privatization were quite unfortunate for the three largest manufacturing 'successors' of Tesla because none of them found a new owner that would give them a strong corporate governance. In none of them did privatization bring a majority owner with a strategic vision. In TVC, some 60 per cent of shares were distributed among 65,000 individual shareholders, 10 per cent to investment funds

(IPFs), while another 30 per cent remained unsold in the possession of the state-owned National Property Fund (NPF). Similarly, in the semiconductor firms, the ownership was very ambiguous. In the case of Terosil only 7 per cent of shares were sold to individual owners and 3 per cent to IPFs. The remaining 90 per cent stayed in the hands of the NPF because the demand did not meet with the supply in the distribution mechanism of voucher privatization. Also, in Tesla Sezam only 51 per cent of shares were distributed to individual shareholders while the rest remained unsold in the hands of the state (interviews in TVC, Tesla Sezam and Terosil). Since the NPF did not have the capacity to manage the hundreds of companies which remained under its administration, the de facto control and decision making powers were left to the managers of the three companies.

Semiconductor firms in Rožnov: internationalization as a way out of a crisis

In the case of the two semiconductor firms and especially in the case of Tesla Sezam the freedom given to management was almost unlimited. Their old technology was considered uncompetitive and the old networks so useless that nobody was actually interested in taking on the responsibility for the ailing company. This was perhaps not surprising given the huge size of debts tied to the outdated technology that the 'successors' had inherited from Tesla Rožnov. The present general manager of Tesla Sezam described the situation in this way:

"The management that took over the responsibility for the company [i.e. including the interviewee himself] was virtue out of a trouble [meaning there was no benefit of becoming a manager at that point]. I have always declared this and I am not ashamed of that. Because we just didn't know what to do with it! Everyone could see that the company was dying by a slow death, the markets were disappearing, nobody had any idea what we could do about it, nobody wanted to take the risk. And nobody had their own money that they could invest into such a venture. [...] At the beginning of privatization we had a debt of 300 million Kč [6 million pounds], with a pile of liabilities, an enormous quantity of inventories that no one would buy and lots of property that was of no use at all. In other words, with totally nonsensical assets." (6.5. 1997)

Given these circumstances, and also because the management quite openly and publicly explained the situation, most employees were ready to tolerate harsh restructuring measures that followed shortly afterwards:

"After the privatization I immediately made all the employees redundant. At the same time, however, I told them that those who were willing to look for a way out of the trouble would be accepted back. But for the time being all employees had to be made redundant in order to be entitled at least to a financial compensation. So within two months we shrunk from 1,600 to 300 employees. And surprisingly, no one

killed me as you can see (laugh). But seriously, the situation was so dramatic that people realized there wasn't a solution to this. And [we started to look for a solution] with this small and well organized group of people; [people] who had at least the faintest idea and who believed that it wasn't possible, that we could not be so stupid when we had been producing this stuff here for so many years and had been doing it pretty well and knew how... That we simply have to find new outlets somewhere." (interview with the general manager of Tesla Sezam, 6.5. 1997)

So despite the harsh restructuring measures introduced by the new management, their attitude of caring for the local community, together with a strong belief in the potential of local skills and abilities, did not disappear. In Terosil, a close ally and a subcontractor of Tesla Sezam, similar sentiments of caring were also apparent:

"Well, it seemed to us that an entry of foreign capital could speed up the whole process of upgrading the production. Also another aspect played a role in this - some kind of social concern. The unemployment here was really high and should a foreign investor come here it would have been some sort of guarantee of jobs. (interview with general manager of Terosil, 5.5. 1997)

With this motivation and attitude, both Terosil and Tesla Sezam started to look for new customers and potential foreign investors in the West. Terosil was initially more successful and established several subcontracting links with electronics manufacturers in Germany, Japan and the UK.

Tesla Sezam, on the other hand, encountered one failure after another in its negotiations with foreign investors and all its projects with different foreign partners ran into sand. Out of the 170 letters that were sent to different companies throughout the world none of the contacts materialized into a stable collaboration or export venture (Ekonom, 1998). In the meantime the company was living from casual sales of small amounts of integrated circuits to different domestic and foreign customers and slowly sinking under its enormous debts. However, even during this period of deepest crisis, the management of the two companies and, especially of Tesla Sezam, kept their old networks active and remained optimistic about the potential of local skills and expertise. In an effort to keep many options open, the managers of Tesla Sezam cultivated close contacts with other electronics firms, both local and elsewhere in the country. The company also continued to cooperate with several Czech research institutions and despite the lack of orders was still paying its best designers and R&D workers in order to preserve its innovative potential and its capacity to develop independently new products in the future (interview with general manager of Tesla Sezam).

During 1993, Terosil was still somehow muddling through and managed to sell just enough silicon wafers and chips to reduce its losses accumulated over the previous years. The debts of Tesla Sezam, on the other hand, were getting out of control and the only way to prevent it from bankruptcy was a debt-equity swap suggested by the company's management. The management eventually persuaded some of its main suppliers to take part in this financial operation while all the major banks refused to be involved. Finally, in the autumn of 1993, the efforts of the managers of the two companies were rewarded. At that time the general manager of Tesla Sezam established the first contacts with the American electronics company Motorola on behalf of both his company and Terosil. This contact proved decisive for the future of the two companies. However, according to the man who himself was central to these negotiations, the initial stage was very difficult indeed. The Americans had no idea at all about conditions in the post-Communist countries and it took quite a long time before a degree of mutual understanding was established.

"Motorola reacted to our requests by replying: "if you want something come over [i.e. to the USA] and show us." Completely unlike other partners who knew what the situation was like in Eastern Europe and knew how poor everyone was here, unable to travel to the other side of the globe. But Motorola didn't know the conditions here at all. [...] So we eventually gathered the money somehow and travelled there. We tried to show them all that has been done and achieved here so far, but they simply didn't believe us, they didn't think it possible. They thought we were just trying to fool them. Since that time it took another two years before we started to understand each other. And the frequency of the visits of Motorola people to Rožnov started to increase.

[...]

They [Motorola] didn't believe that the technological quality here could be such, that we could have all this knowledge. However, very soon - and they are really good at discovering this - they realized that there is a know-how here [in Rožnov] and that the local human potential is of a very high standard. The organization of production was, of course, at the level of ancient Rome and Greece. So they just hinted that if we expected anything from them we needed to change things and they also hinted a bit how we should do it. Later they came back again to have a look at what we had done about it. [...] After two years of testing what we can do with our empty hands and naked ass [i.e. with an old technology and no money] they decided that we had done enough to persuade them. So only then we got the first one month contract from them. Then a two month contract, then a three month, then half a year, then five years. And now we have a seven year contract with them with a condition that as long as we fulfil their requirements the contract will be automatically extended." (Interview with general manager of Tesla Sezam, 6.5. 1997)

One interviewee described the changes that followed the establishment of the stable relationship with Motorola as a fairy tale. And indeed, the economic data about Terosil and Tesla Sezam show an unprecedented turnaround. Even though in 1993 the two semiconductor companies from Rožnov were able to supply integrated circuits three and half times cheaper than Motorola, by 1997 Tesla Sezam was able to further increase its productivity of labour 10 fold and reduce its production costs three fold (interviews;

Czech Business and Trade, 1997). Profits started to sky-rocket and debts accumulated from the past disappeared. Thanks to the stable sales to Motorola the huge debts of Tesla Sezam were paid off by 1997. Also, Terosil, due to the increased sales, started to generate profits from 1994 and managed to pay off all its debts inherited from Tesla Rožnov by 1997 (Tesla Sezam, 1998; annual reports of the companies).⁵³ Moreover, Motorola also rented the local companies its own technological equipment which quickly improved the quality of products from Rožnov. Both Terosil and Tesla Sezam were therefore soon certified for their quality by several major electronics producers throughout the world.

In no way was this turnaround a straightforward process. It took several years of mutual search, redefinition and adjustment of positions, practices and expectations on both sides. All the managers stressed the initial cautiousness and the length of the testing period. All these complications, however were an essential part of the process of search which eventually led to mutual adaptation, trust and understanding.

"All the procedures associated with it [the quality standards of Motorola] - through a myriad of minor misunderstandings - we started to implement. First through controls every quarter of a year, then monthly, today even weekly. And it really started to work! The profitability and yields jumped behind the levels we have even dreamt of. In Motorola [headquarters] they just stared at that. Today our assembly operations [...] are by far the most efficient in the whole network of Motorola's assembly plants." (general manager of Tesla Sezam, 6.5. 1997)

With the help of the foreign partner, the two companies which were once struggling on the verge of bankruptcy suddenly became attractive partners for banks too. The simple fact that Motorola signed the contract for the supply of integrated circuits from Tesla Sezam gave the company's management an enormous *symbolic power*. Such an act of recognition by a major Western corporation immensely increased the symbolic value of the Rožnov company and was a sufficient guarantee for a loan three times as high as its assets. This was clearly something absolutely unthinkable just a few years earlier.

⁵³At the time of the field work (June 1997) some 350 employees of Tesla Sezam on one of its several production lines alone were producing three times as many semiconductor components than the whole semiconductor department of Tesla Rožnov did with several thousand employees in the mid-1980s (interviews).

Slowly, as the supplies to Motorola started to dominate the sales of both the Rožnov semiconductor companies, the American partners lost their initial cautiousness. In 1996, after long negotiations with the National Property Fund, Motorola decided to take over controlling stakes in the two companies. The deal was finalized in spring 1997 (i.e. just weeks before my field work in Rožnov). The managers of Terosil and Tesla Sezam, however, did not expect any major changes in the mutual relationship after the takeover. In the words of the general manager of Tesla Sezam:

"They [Motorola] didn't buy us. They just became the owners of our stock in order to prevent any uncertainties, so that no one else can intervene. Otherwise all we do is *not* from the capital of Motorola. It is our capital [meaning the capital accumulated from retained profits of Tesla Sezam]. The crucial thing was to stabilize the ownership relations [of the two companies]. It is not meant to allow Motorola to live out of our dividends and yields. Motorola sees the advantage of the relationship in the fact that there is a potential here that can be expanded, that we can produce at prices different from theirs [i.e. lower], and also, I think, in a quality that three years ago we had to learn. But today in many respects we are better than the ones who taught us how to achieve it." (6.5. 1997; original emphasis)

Similarly the general manager of Terosil was quite confident about the good intentions of their new owner:

"The new owner [Motorola] didn't buy us in order to profit on the value of our shares but because they are our customer. [...] [Because] almost 50 per cent of our production goes to one of the firms controlled by Motorola." (5.5. 1997)

Altogether the contact with Motorola came at a critical time to rescue the two semiconductor firms from bankruptcy (certainly in the case of Tesla Sezam which already had a governmental proposal for its liquidation in its hands!). Despite a rather strong dependence on one dominant customer - and now also a new owner - the relationship does not seem to conform to the stereotype of a branch plant economy at all. The managers of the two companies used the contact with their American partners as a source of symbolic capital and recognition, as means of legitimizing their positions and also used the newly acquired symbolic power in negotiations with other Czech firms and banks. However, unlike in the cases described by Grabher (1994, 1997) or Smith and Pavlínek (1998), this process did not seem to have any major 'disembedding' effects on the local networks of the two companies.

The management of Tesla Sezam and Terosil have never abandoned their old networks and even during the periods of deepest crisis they preserved and kept active both their local and national networks. The social capital of these networks then acted as

means of securing local recognition and legitimation with which the managers backed up their attempts at internationalization and which confirmed their role as mediators of its meaning (Callon, 1991, 1998). Once the relationship with Motorola was established, the local managers were able to exploit their local recognition.

The established position of these managers in the local networks and their knowledge of local system of meanings and practices allowed them to mobilize local actors, their skills and abilities, which the foreign investor found attractive. The positive attitude of local managers towards the local networks thus allowed for an interaction between the symbolic capital of the Western partner and the networked social capital of other local actors too. Once the foreign investor discovered the local innovative potential, the managers were able to strengthen their positions vis-a-vis their American partners by stressing their role of gatekeepers who controlled the local networks and resources. However, before we start to analyze the process of translating the meanings of internationalization and its impact on regional adaptability, we will turn to the other major electronics plant in Rožnov, the vacuum components manufacturer TVC.

Vacuum components: end of TVC and internationalization of its remnants

Tesla Vacuum Components (TVC) was the largest of Tesla Rožnov's 'successors' in terms of employment. It inherited some 2,500 of its former employees as well as the largest chunk of its huge debt. Similar to the two semiconductor companies, the management of TVC was also left with a great degree of freedom in the decision making, although unlike the semiconductor division of Tesla, the vacuum technology division did not lose its main customer straight away. Its new management thus initially did not face such a hopeless situation requiring radical and immediate action.

Traditionally, the largest customer for vacuum components from Rožnov was a Slovak TV manufacturer Tesla Orava. The production of TVs in Tesla Orava after 1989 failed to reach the capacity for which the plant was built, while TVC was only operating at one third of its capacity as a consequence of Tesla Orava's difficulties. Nevertheless this link provided TVC with some stability and continuity to its production and its new management was hoping for the revival of the domestic market and of Tesla Orava

(interviews in TVC and TPT). The problems in the Slovak TV manufacturer, however, were getting worse and in late 1992 the company almost ceased to produce. Although later the situation in Tesla Orava got slightly better, the Slovak manufacturer in the meantime decided to phase out the products for which TVC was subcontracting its TV tubes. Unfortunately, TVC was using a licensed technology which it was unable to adapt to the new requirements and Tesla Orava made it clear that TVC could not rely on them as a customer for much longer. To make matters worse, Czechoslovakia split at that time (1.1. 1993) which made further subcontracting to Tesla Orava an export contract exposed to severe international competition and to higher risk because of foreign currency transactions.

On the positive side, the management of TVC succeeded to restructure part of its debt. Thanks to the reasonably good contacts of TVC's management with some of the state-owned banks and parts of the state administration, the banks agreed to write-off some of its enormous debts which approached 1 billion Kč (some 20 million pounds, about twice as much as the assets and the yearly turnout of TVC). However, the TVC's management was unable to diversify their networks and secure any major customer or a stable flow of orders. One of the interviewees commented on the attitude of the management in the following way:

"They were accustomed to large orders from one, monopoly customer [i.e. Tesla Orava]. And suddenly that disappeared almost overnight. Well, and TVC was totally unprepared for this in terms of their marketing abilities." (interview with the liquidator of TVC, 7.5. 1997).

The management tried to compensate for the lack of marketing ability and foreign contacts by cultivating their networks with the state-owned banks and extracting further credits. This, however, was not sufficient to provide them with recognition and legitimation in the new economic environment. The debts of TVC kept piling up and the economic criteria eventually triumphed over the political ones. In 1993 no bank was willing to provide them with any further loans and the suppliers of TVC stopped delivering because the company was insolvent. When TVC's local electricity supplier, another 'successor' of Tesla Rožnov, decided to cut off the supplies in the summer 1993 TVC had to send its remaining 1,300 employees for an obligatory holiday (Práce, 18.5 1993; Českomoravský profit, 21.10. 1993).

At this stage the management of TVC were already looking intensively for alternative outlets but with only limited success. All the contacts they established resulted in sales of only a limited number of goods that could not revive the whole company. Finally, the management of TVC came to a conclusion that the search for a major foreign investor was useless because both the Western customers that TVC had some contacts with - Toshiba and Samsung - were uninterested in taking over the company (Hospodářské noviny, 29.7. 1993).

TVC's management also hired a German management consultancy company. On their advice and in cooperation with its main sales partner - a Czech foreign trade company Tesimpex (name changed) - they put together a restructuring plan. The employees of Tesimpex were people who formerly worked in the state-owned foreign trade company Kovo which exported the products of Tesla Rožnov to the Western markets. Tesimpex therefore seemed to have both good relations with the TVC's management in Rožnov, as well as a good knowledge of the demands and opportunities of the Western markets.

According to the restructuring plan, three new companies were established at the break of 1993-94: TPT, TLT and TTV. The first two were established in cooperation with Tesimpex and these took over the bulk of the TVC's production programme (i.e. TV tubes), as well as some 1,100 of its former employees. Tesimpex took a 100 per cent stake in TPT and a minority stake in TLT which was controlled by the management of TVC. Moreover, Tesimpex as a trade company provided the marketing and sales networks while the real estate, the technological equipment, and licences were rented from TVC. The third company called TTV was established jointly by members of the top management of TVC and their German partners who also own a majority stake in this company. Its main activity is the assembly of TV sets from imported kits and their sale on the domestic market (interviews in TVC, TTV and TPT). TVC itself "turned from a manufacturing into a legal company and a company that manages real estate" (general manager of TVC quoted in Mladá Fronta Dnes, 31.8. 1995).

The main trick of the restructuring plan was that the three new firms lost any legal responsibility for the enormous debt of TVC. Once this transformation was

finished, TVC stopped paying for deliveries or meeting its outstanding debts, taxes and social insurance. Eventually, in 1994, six of its largest suppliers started a bankruptcy procedure against TVC which at the time of my field work was still underway.⁵⁴

According to the liquidator of TVC:

"The company had no chance of a survival. They were unable to find new markets. They looked for new owners and foreign investors but all came to nothing. Japanese and several others came here to look around but nobody wanted to buy it because of the enormous debts. At the time of the bankruptcy it was one and half billion Kč! [roughly 30 million pounds]. And such a debt would hammer down any new owner. So when there was no other way out there was still the option of stealing what was left of the company, the remaining property. And in TVC it was only just starting to happen [when the bankruptcy procedure began]." (interview with the liquidator of TVC, 7.5. 1997)

The management of TVC certainly had a bad start to their attempt at company restructuring and it is important to note that the conditions of competition vary between particular segments of the market. The production of vacuum television components in Eastern Europe is subject to enormous competition from the Western electronics giants. Compared to semiconductors it is a product with a more saturated market which makes it harder for a new entrant to succeed (interviews).

On the other hand, it seems that the management of TVC did not do all they could to save the company from bankruptcy. The opinion of another interviewee shows the role of the management of TVC in a highly negative light. Unlike the liquidator of TVC, who actually came to Rožnov only at the beginning of the bankruptcy procedure, the interviewee quoted below owns a small company that also separated off from Tesla's vacuum technology department and has been in touch with TVC's management ever since the privatization of Tesla Rožnov:

"I think it [the production of vacuum components in TVC] had a pretty good standard there. They had a Japanese technology there which was bought under a licence at an immense cost [...] And this technological equipment was *physically* liquidated, broken down. It was all destroyed. Because they [the management of TVC] said: "We will bring a foreign company here and they will give us a new, much better technology instead... [...] TVC simply didn't care about anything. And that's why they didn't survive. I think that all depends on people. And they did have a chance to survive." (interview with an owner and manager of Radion, 6.5. 1997; original emphasis)

⁵⁴The unfinished bankruptcy procedure is also the reason why the information in this section is based mostly on secondary data (mainly on newspaper articles). Another source of information about TVC was an interview with its liquidator and with managers of its 'successors'. At the time of my field work the former managers of the company were not present in Rožnov any longer and the liquidator - for legal reasons - refused to give any information on their whereabouts.

A closer look at the restructuring of TVC thus gives a completely different picture from the two semiconductor firms. The management of TVC reduced substantially the diverse network heritage of the company as the new managers were not interested in contacts with local firms or actors (interview in Radion). They preferred instead the strong links with the big state-owned banks hoping that because of its size neither the government authorities nor the banks would let it go bust (interview with the liquidator of TVC). These networked relations improved the situation for some time, but they did not provide a long term solution and gradually weakened the financial position of the firm. Moreover, the unwise reduction of the company's local network heritage combined with the failure to diversify its networks and an early commitment to internationalization did not provide the management of TVC with sufficient recognition and legitimation in relation to local actors in Rožnov, to other Czech companies, and also in relation to potential foreign partners. In other words, the networks based on contacts with the state bureaucracy alone were unable to provide a sufficiently *credible source of symbolic recognition* in the new economic environment. Without such recognition, TVC's management remained largely isolated and too closely tied to a limited number of old networks which were unable to provide any radically new, innovative solutions.

The failure to secure local recognition was reflected in the fact that the best qualified employees of TVC started to leave at the first opportunity (interview with the manager of TPT). Also the fact that its domestic suppliers (but apparently not the banks!) lost faith in the future of the company and eventually started the bankruptcy procedure (interview with the liquidator of TVC) can be interpreted as a result of a loss of recognition and legitimation in the eyes of former trading partners.

At the local level, the lack of recognition was exacerbated by the failure to preserve or strengthen the existing web of local networks. The bad relations between TVC and other successors of Tesla were mentioned by several interviewees. In particular, the negotiations over the split of Tesla's debts in which TVC played a major role caused quite a lot of tension in the relations between TVC and other successor firms which blamed TVC for trying to transfer unfairly large portion of the debt to them

(interview with manager of Radion). This, together with serious financial difficulties in virtually all the 'successor' firms, led to a complete loss of a sense of common enterprise and many local actors lost interest in future cooperation. A manager of one of the small successors of Tesla attributed the deterioration of relations largely to the management of TVC when he remarked bitterly:

"Here, in this industrial area, we started to increase distance from each other. Everyone simply just minds their own business. But that's the circumstances that pushed us to that. And the inter-personal relations have really deteriorated a lot. It is like falling out with your brother!" (interview with manager of Radion, 6.5. 1997)

In this way the management of TVC lost control over the diverse networks in the region which could have been used as a basis for a symbolic recognition and a means of legitimizing their restructuring efforts locally. The enrolment of other actors than state-owned banks in their restructuring project could have potentially provided the TVC's managers with alternative interpretations of their difficult situation and innovative solutions to it, such as the debt-equity swap which Tesla Sezam arranged with its major suppliers. Instead, the attitude of TVC's managers resulted in the loss of any ability to mobilize the inherited networks of their company and a gradual withdrawal of support even from those local firms that were themselves initially keen on cooperation. The management of TVC thus remained largely isolated from local networks. Under such circumstances, even if TVC succeeded to attract a foreign partner, the process of internationalization would probably have resulted in an arrangement characteristic of the dependent, disembedded Western institutional 'clones' (Grabher, 1994, 1997; Sadler and Swain, 1994) without the ability to produce innovative forms of action locally.

The prospects improved marginally with the establishment of the three new companies. With the help of Tesimpex, both TPT and TLT established some export networks and TTV together with its new German-Czech owners managed to gain about 12 per cent of the domestic market in TVs (interviews in TPT, TTV and TVC). These achievements and the modest profits these firms generated brought their managers some local recognition, or more accurately, local acceptance. Despite that, however, the legacy of TVC still persists in Rožnov. The three vacuum technology firms that separated off from TVC inherited from their predecessor a very poor social and

symbolic capital, indeed: "a second rank, a second garniture of employees" (interview with production manager of TPT, 7.5 1997) and bad or non-existent relations with other local firms and bodies (interviews in Radion and TTV). For these firms there was little to build upon in terms of networked social capital which, in turn, made it harder for them to gain symbolic recognition in the eyes of foreign partners. Their position remained weak and vulnerable in relation to Western customers which, at present, is still reflected in the instability of their export networks. These networks lack completely the trust produced through mutual search, adjustment and the production of shared meanings which characterize the international networks of the two semiconductor firms.

The sales in these companies fluctuate widely and the employees have to cope with irregular working hours according to the changes in the demands of the Western customers. "We are trying to make our employees flexible" was the way the manager of TTV (26. 5. 1997) described the fact that sometimes their company works only four days a week because of these fluctuations. In other words, the three 'successors' of TVC compete largely on the basis of a cheap local labour which seems to represent their only substantial source of power in relation to Western customers or partners. This was also, rather reluctantly, confirmed by the production manager of TPT when he said:

"Our costs are rising all the time, especially due to inflation. And the costs of TVs go down all the time as well. We are as if squeezed in a pair of scissors. [...] And we can only succeed on the market thanks to the fact that we import and export [i.e. import components and export the whole TV tubes] and that we can deduce the import tariffs.[...] Otherwise on the domestic market our products would be totally uncompetitive. [...] We operate on the segment of market where there is a very tough price competition. The largest companies such as Philips or Panasonic started a battle for a redistribution of markets this year. And logically, this started by pushing the prices [of components] down as much as they can." (interview with production manager of TPT, 7.5. 1997)

The three successors of TVC simply buy components world-wide with the help of Tesimpex or the German partner respectively and use Rožnov as a cheap assembly location. For the time being at least the activities of these three companies together employ more than one thousand local people who would otherwise be unemployed. The following sections will analyze the role of local managers in translating the meaning of internationalization and creating diverse preconditions for regional adaptability. They will thus try to answer how adaptable the Rožnov companies are in the long term and how stable are the jobs they provide.

DIVERSE FORMS OF INTERNATIONALIZATION AND THE REGIONAL ADAPTABILITY

The process of internationalization affected to some extent all the electronics manufacturers in Rožnov. The semiconductor firms Terosil and Tesla Sezam established a stable relationship with the American multinational Motorola, while the three vacuum component firms that separated off from TVC internationalized their networks with the help of a Czech foreign trade company (TPT and TLT) or of their new German partner (TTV). Although the origin of all the successors of Tesla Rožnov was the same, the character of internationalization varied in each of the cases. This was primarily because the concrete result of internationalization reflected the ways in which the local managers used their networked social capital and whether they succeeded or not to transform it into a new source of symbolic power. More importantly, the particular *meanings of internationalization* mediated by the managers also transformed the action frameworks of other local actors. The process of internationalization thus translated locally into a specific system of practices and meanings which had important but diverse consequences for the adaptability of individual firms and groups of actors in Rožnov.

Semiconductor firms in Rožnov: internationalization as a way to local integration

As already mentioned, the managers of Terosil and Tesla Sezam kept backing their attempts at internationalization by preserving and cultivating their network heritage throughout the times of crisis. In this way, they were using their closely knit local networks based on old acquaintances as the media for presenting their views and their caring attitude which, in turn, increased their local recognition. The management of the local semiconductor firms thus seemed to be very successful in what has been described in theoretical terms in Chapter Two; that is, they used their networks for presenting a particular interpretation of an aspect of reality and for mediating its meaning (Latour,

1987; Callon, 1991), and through this process they increased their own symbolic power (Bourdieu, 1977, 1991).

The key aspect of the new, internationalized economic reality as presented by the managers of Terosil and Tesla Sezam was the stress on fairness and openness as well as inclusiveness in both local and international relations. From the empirical findings it seems that a central role of 'strategic guidance' (Amin and Hausner, 1997, p. 17) in spreading this attitude and enrolling other actors in its reproduction was played by the present general manager of Tesla Sezam. This man enjoys a reputation among local people for his uncompromising sense of fairness and for an interest in the welfare of his employees and local community (interviews). Since he also played a key role in the negotiations with American partners, his local recognition enabled him to mediate the meanings of internationalization locally and to take an active part in 'energizing' and mobilizing a variety of local and nationwide networks.

The attitude of openness and stress on the role of trust was also very obvious during the interview with the general manager himself. When asked about the role of trust in business relations and in the relationship with Motorola he replied:

"This was one of the things which Motorola found interesting about us. That even at the time when we were in loss I was still in favour of absolute openness, a true openness in relations. Both in the positive and the negative matters. [...] We didn't have any other chance but to persuade our partner that we are open, that we have nothing to hide and that we have no hidden intentions. [...] And Motorola, I must stress - and that is several times underlined - is a very tough and demanding partner but also a highly *fair* one. What they expect from their suppliers they are ready to fulfil themselves in relation to us." (6.5. 1997)

The attitude of openness on the side of the local managers was thus reciprocated from the side of several key employees at Motorola. According to one interviewee, Motorola was even a founding member of an association of fair business in the USA (interview with former general manager of Terosil). Furthermore, Tesla Sezam has quickly gained a similar reputation in the Czech Republic⁵⁵, which increased the symbolic power of its management and further improved the relationship with Motorola. Once this relationship was stabilized, the managers of the two semiconductor firms therefore

⁵⁵In 1996, for example, Tesla Sezam was awarded a special national prize for its openness and disclosure of business information (Lidové noviny, 26.8. 1996).

enjoyed a favourable position for *mediating* the meanings and understandings of *internationalization* .

The interviews also revealed that the managers of Tesla Sezam and Terosil actively supported a positive interpretation of internationalization and a positive picture of their foreign partners, which they then spread through their local networks. In this way, the local managers were able to *enrol* both the representatives of Motorola and local actors (employees of their own firms, owners of other local firms and members of local council) in a common project (interviews; Tesla Sezam, 1998). They aligned their interests and understandings (Callon, 1991) by presenting a mutually beneficial interpretation of internationalization and therefore eased the communication between actors with diverse action frameworks. When the contact with Motorola started to bear fruit, the local managers found it relatively easy to translate the practices of their partners into practices understandable to local actors and compatible with the meanings they recognized. The advantageous position which Tesla Sezam and Terosil achieved in the corporate hierarchy of Motorola was thus at least partly a reflection of the activity of their managers who produced a near 'perfect translation' (Callon, 1991, p. 145) of internationalization that is acceptable and attractive to all or most parties involved.

From the point of view of regional adaptability, an important aspect is that the operations of Motorola in Rožnov are run by local people who did not isolate themselves from their locality and local networks. There is a whole web of networks that link the managers and employees of the two semiconductor companies with other successors of Tesla Rožnov and with many local start-ups often owned and run by former employees of Tesla Rožnov. Tesla Sezam itself has stakes in five other local firms that are in one way or another connected with the electronics industry and which represent their extension to several more specialized and applied activities (e.g. special measuring equipment, electronic equipment for solar energy panels, medical equipment such as tomographs, thermoregulating equipment and so on). Terosil and its management also have stakes in several local firms (database of the Ministry of Justice). Both Tesla Sezam and Terosil subcontract from several local firms including some of

the 'successors' of Tesla Rožnov, such as the manufacturers of special machinery for the production of silicon chips.

Through all these contacts and networks Tesla Sezam and Terosil pass on particular meanings of internationalization, the practices of fair business, and their understanding about the positive role of their American partners. Through interactions in these networks, a sense of common purpose is strengthened, and also mutual trust is enhanced. All the interviewees also expressed a very ethical attitude to market transactions and stressed that they would not trade with anyone using what they regarded as unfair practices (e.g. use of tricks in price negotiations). Most interviewees also made it clear that their relations with other local businesses go beyond mere business transactions. Often these relations are based on old friendships, since the partners live as direct neighbours in Rožnov.

The form of internationalization mediated through the activities and networks of local managers thus found its expression in a shared system of meanings and understandings which allow actors to *mix* elements of both local and imported (i.e. Western) meanings, practices and skills. The processes of translation and enrolment allowed the variety of meanings and practices to circulate through local networks and to be shared and mobilized by actors when needed. The process of enrolment involved not just firms in the locality, but stretched to other local bodies. So when asked about links with the local council, which today is staffed mostly by former employees of Tesla Rožnov, the general manager of Tesla Sezam said:

"We sort of spread the [caring and cooperative] ideology around here and towards the town council. For example about the care for the environment, undoing the sins of the past. It is partly under pressure from Motorola but I think that by now we accept it for our own." (6.5. 1997)

Clearly this caring and cooperative attitude is not new, as the ties between Tesla Rožnov and the locality have traditionally been very strong. However, in its present, reinvented form the caring is shaped by combining elements of old local practices with international, Western ones (Stark, 1992; Stark and Grabher, 1997b). The use of old practices and organizational forms to construct new, internationalized ones is best documented by the R&D venture between Motorola and Tesla Sezam, which also demonstrates the innovative potential of such institutional arrangements (Stark, 1996).

Even before Terosil and Tesla Sezam actually started the regular subcontracting to Motorola, the management of the two companies used the fact that Motorola's people realized the research potential of designers in Rožnov. The local managers were quite aware of the impossibility of paying for the highly qualified specialists, as well as of the high risk of 'brain drain'. In order to preserve a source of R&D close at hand in Rožnov, they pushed forward the idea of integrating local R&D capacities with the research network of their American partner. Eventually they succeeded and Motorola initially selected the best 15 designers of Tesla Sezam and employed them in the newly established Motorola Czech Design Center in Rožnov. Later on, in 1995, a set of application laboratories were added which were also financed by Motorola. Today, the Center employs some 50 specialists and its capacity is used jointly by both Motorola and the two local semiconductor firms (interview with general manager of Tesla Sezam). Thanks to this, other local companies closely connected with Tesla Sezam and Terosil also directly or indirectly benefit from the R&D base funded by Motorola. The Design Center thus provides new impulses and information about the latest technological developments for the whole set of electronics firms in the area.

Tesla Sezam also revitalized another tradition and a set of networks inherited from the time of Tesla Rožnov. In an attempt to further support local traditions in the research, design and manufacturing of semiconductors, the company strengthened its traditional close cooperation with several technical universities both in the Czech Republic and in Slovakia and invited them to send their best students for practical study periods in the company (Tesla Sezam, 1998). Similarly, the semiconductor firms started once again to subsidise the local secondary school which specialized in electronics and some of the activities of the local council (interviews in Tesla Sezam and Terosil). In all these cases, however, the revived traditions and practices are being revived selectively. They still often represent a form of caring for local community, but they already involve a capitalist rationality of profit making and employ the international networks and practices as an essential part of local activities.

It seems that both the production and R&D activities of Motorola in Rožnov have become quite central to its world-wide operations. For the foreseeable future there

is no threat of Motorola's withdrawal since the foreign investor, on the contrary, has impressive future plans for its establishments in Rožnov. The Americans plan to invest a further 45 million US \$ and to increase the present employment levels from 800 by a further 50 per cent by the end of the century (interviews).⁵⁶

The semiconductor 'successors' of Tesla Rožnov have therefore managed to make full use of their stable, long term relationship with Motorola. Their managers successfully transformed the control and knowledge of local networks into a source of recognition by the Western multinational, which also increased their recognition and appreciation among domestic and local actors. This recognition, in turn, empowered the local managers to create and spread a new, collectively shared system of meanings, as well as to enrol both Motorola and the local firms and actors in a process of mutual adaptation.

The process of translation made diverse actors respect and recognize each other's networks, skills and practices and produced a form of trust which enabled them to mix elements of their action frameworks. In other words, the local managers aligned the positions of heterogeneous actors (Callon, 1991) and established a situation which made actors reflect on their system of practices and meanings (Murdoch, 1995; Storper, 1995). The resulting mix and integration of diverse networks and practices then led to a collective reinterpretation and production of locally-based innovations (Sabel, 1993; Storper, 1997).

The institutional set-up which resulted from the translated meaning of internationalization thus seems to be well integrated. It allows both local actors and their foreign partners to draw on a variety of practices, skills, routines, as well as understandings and interpretations that are brought to the locality through networks of various actors. So far, this set-up has proved to be quite adaptable, because the majority of actors are simultaneously involved in several diverse networks and open to new impulses. If they also sustain the ability to enrol others in accommodating the new

⁵⁶The stability and strength of the position of Tesla Sezam and Terosil in the corporate structure of Motorola is quite apparent from such paradoxical situations when, for example, the Rožnov companies are able to get better terms for imported inputs than Motorola's plants elsewhere. This is because the Eastern European operations of Motorola are regarded by many suppliers as a long-term, crucial customer for the future (interviews in Tesla Sezam and Terosil).

practices and reinterpreting them locally, the long term adaptability of these firms will very likely be preserved.

'Successors' of TVC: internationalization as an increased instability

The successors of TVC provide quite a different story of internationalization. The three new firms clearly illustrate the problem of firms that are largely powerless and lack the adaptable capacity due to limited access to alternative networks. Their understanding of internationalization is largely shaped by the volatile demands of the market and their foreign customers. Although the managers expressed their wish for stable customer relations, they were nonetheless pushed to accept the notion of the market as a 'rough' place where the stronger Western companies exploit the cheap and powerless Eastern European ones.

The almost complete absence of local networks on the part of these companies does not mean in itself that they lack adaptability altogether. The problem is that the networks which link local managers to their Western customers show a lack of stability and are thus unable to act as channels for mobilizing alternative practices and as a means of adaptation. These networks are characterized by a deficit of mutual commitment, alignment of interests and openness. Such features, in turn, prevent local actors and their foreign partners from creating a shared system of expectations and from a mutual adjustment of their action frameworks that might have resulted in a new interpretation of existing practices.

The lack of information openness and trust in relations with Western partners which stops the manufacturers of TV components from creating a more positive meaning of internationalization, was described by one interviewee in these words:

"Of course they are [informed]. Not all of them but, say, Philips before they started to subcontract from us they conducted both a technical and economic audit here. [...] But from their side it is slightly more complicated. We have to deliver at their whistle. We must guess according to our marketing knowledge and information what their sales will be like. They [foreign customers] give us some sort of outlooks but these often diverge from the reality by far." (interview with production manager of TPT, 7.5. 1997)

Clearly, the management of local vacuum technology firms are in a difficult position. It is hard to change the attitude of their Western customers unless they can see that the Rožnov firms have more to offer than cheap local labour. Given the damage inflicted

upon the network heritage by the TVC's activities, the management of the three new companies seem to have little to offer. The lack of local networks makes it difficult for them to gain the local recognition and symbolic power required to mobilize extensive local networks. The absence of local recognition, then, makes it hard to enrol other local actors and use their skills and abilities as a means of persuading foreign partners to commit themselves to a long term involvement in the region.

The managers of the three new vacuum component firms have largely resigned as local mediators (Callon, 1991, 1998) who shape the meaning of internationalization. Instead of trying to negotiate differences between practices recognized locally and those recognized by their foreign customers, they seemed to have learned to cope and survive in conditions of unstable order. They have begun to take this instability as an inevitable aspect of internationalization (interviews in TPT and TTV).

Due to this particular interpretation of internationalization, the managers seemed to be happy about their position as low cost manufacturers filling in occasional gaps in the market. They did not appear to mind that the marketing (in the case of TPT and TLT) was done for them by the trade company and that the international networks were effectively out of their control. Similarly, in relation to R&D, there were some worrying indicators of dependence and a loss of autonomy. None of the three companies had an R&D department and the interviewees admitted with different degrees of openness that they were not even trying to change the situation:

"On R&D we try to cooperate with our suppliers, we let them do it. The technology goes ahead very quickly here and financing a large R&D base is a very expensive matter. We are not a multinational company. We don't have the financing means as they do. [...] We operate in the middle range of technical standard. And our products are not exactly at cutting edge of technology." (interview with sales manager of TTV, 26.5. 1997)

And similarly in another case:

"R&D is very expensive in this particular sector. [...] And we can't really design a TV tube on our own. When we want to start a production of a new model we can only do that in cooperation with a major foreign firm, say Toshiba. We have to buy the know-how. We have neither the specialists nor the money to develop certain parts of a TV tube. All we do is a practical application, adaptation of the technology and so on. But to produce our own model, that we simply can't manage." (interview with a production manager of TPT, 7.5. 1997)

In the past, there was a strong tradition of R&D in vacuum components in Rožnov, and even after the break up of Tesla some small local firms attempted to keep this tradition

alive (interview with manager of Radion). Also, due to the lack of interest and support from the TVC's management (who were the main inheritor of the vacuum technology R&D facilities of Tesla Rožnov), this innovative potential disappeared. The most qualified people left the company for activities in other kinds of business (interviews in TPT and Radion) and those who remained have lost an interest in radically new forms of action. Employees have largely lost motivation and so did other local firms in technologically related manufacturing activities. In contrast to the case of the semiconductor firms, no web of supportive networks with other local firms emerged. The smaller vacuum technology firms such as Radion, which were themselves unable to carry out major R&D investments could have been easily enrolled in the adaptation to the process of internationalization and might have become a source of alternative interpretation and innovation. Instead, they continue to struggle at the edge of bankruptcy (interviews in Radion and TVC). The lack of enrolment as well as a virtual absence of common interests and a shared system of meaning thus made the vacuum technology firms isolated and therefore more vulnerable when faced with the process of internationalization.

It is not impossible that the TV tubes manufacturer, TPT, and its subcontractor, TLT, will in the future develop a more stable relationship with one of their large Western customers. It is unlikely, however, that without a web of networks that could 'hold down' the process of internationalization this change would create new, locally-based interpretative opportunities (Sabel, 1994). Further internationalization of these firms would thus hardly change their status as dependent, low-cost assembly plants, unless they developed networks through which the meaning of internationalization could be mediated and reinterpreted locally. However, in a situation where the management is unable to achieve sufficient local recognition and has lost the key employees with specialized skills and expertise, the chances for revitalizing the network heritage and increasing the adaptability of these firms look rather slim.

A similar situation is evident in the case of the TV manufacturer, TTV, which is a simple assembly plant with virtually no local networks and innovative potential (interview with manager of TTV). Although its management succeeded in building up a

sales network serving the Czech market, the company is still facing serious problems. At the time of the field work, the management were worried about the future of their firm which was threatened by cheaper products from a newly established Japanese greenfield plant elsewhere in the Czech Republic. This erased TTV's only advantage of low labour cost and undercut it by greater economies of scale.

The new management of TPT and TLT appointed by Tesimpex, as well as the management of TTV appointed by the new German partners, were quick at adjusting their managerial practices to the disciplining rule and rationality of Western capitalism. These practices were implemented quite successfully and the companies currently generate small profits (interview with the liquidator of TVC). However, the new practices were largely restricted to routine activities aimed to stop further increases in production costs. This task was completed, but the restructuring has been achieved with little effort to adjust the Western practices to the local ways of doing things, or to combine them innovatively with the action frameworks of diverse actors within the region. This is in part understandable because the vacuum components firms, due to the previous activities of TVC, are largely isolated from other local actors and their networks. The scope of operations of these firms is partly limited by their technological equipment which is expensive and difficult to change, but it is also limited by the action framework of their managers. Their action frameworks are associated with a particularly *limited understanding of internationalization* which only stresses the continuing pressure on costs and quality and relies on routine practices and a small number of sales networks.

Overall, it seems that in the case of the vacuum components firms in Rožnov, the process of internationalization produced a fragmented institutional set-up. It is characterized by a simple import and copying of certain Western practices which restrict the action framework of managers to a routine behaviour. Although two out of the three of these firms are actually Czech-owned, their institutional set-up resembles the 'disembedded' foreign-owned branch plants which have only limited contact with their locality (Grabher, 1994, 1997; Swain, 1994). The vacuum components firms thus missed the opportunity to use internationalization as a source of new interpretative

possibilities and innovativeness. They can be seen as mere providers of jobs who survive thanks to cheap and competitive local labour costs, but whose adaptability and long term competitiveness are highly questionable.

CONCLUSION: INTEGRATING LOCAL VARIETY

The collapse of Tesla Rožnov and its subsequent internationalization have brought financial discipline compatible with Western symbolic capital to the Rožnov region. Moreover, the process of internationalization has also helped to overcome the deep regional economic crisis of the early 1990s. It increased the diversity of networks and practices within the locality and created preconditions for innovativeness and adaptability among several key local firms. The same process, however, resulted in a lack of adaptability and increased dependence within other local firms. This case study has thus demonstrated that the process of internationalization can have a highly diverse impact on firms within one region, even if they share a common past and an equally inconvenient network heritage.

Furthermore, this chapter has also demonstrated the usefulness of the concepts of social capital and symbolic power (Bourdieu, 1977, 1990), as well as translation and enrolment (Latour, 1987; Callon, 1991) in explaining the diverse outcomes of internationalization. The examples of the Rožnov semiconductor and vacuum components firms show that the differentiated impact of internationalization on the adaptability and competitiveness of each of them does not depend on a presence of diverse international networks alone. The impact of internationalization depends, to a large extent, on the ability of actors to mediate and 'hold down' this process locally ((Amin and Thrift, 1994b). It has been demonstrated here that these differences are a reflection of the ability of local actors to gain the symbolic power, to become mediators and thus gain the control over the meaning of internationalization. Subsequently, the mediators, through cultural processes of translation and enrolment, may integrate the diverse action frameworks present in the region and use the meanings of internationalization in a way that increases local innovativeness.

On the one hand, the managers of the semiconductor firms retained the support of local networks which helped them to maintain local recognition and symbolic power. This, in turn, enabled them to translate the meanings of internationalization for other local actors, enrol them in the adaptation to its demands and spread through their networks positive interpretations of internationalization. The result of their activities was an alignment of diverse action frameworks and trust between actors, which further stimulated their reflexivity and created innovative, locally-based interpretative possibilities (Sabel, 1993, 1994; Storper, 1997).

The management of TVC, on the other hand, preserved only certain elements of their company's networked heritage which were unable to provide them with a credible source of recognition either locally or in relation to foreign partners. This deficit of recognition and negative attitude towards local networks on the side of TVC also made the position of its successors unsuitable for local mediation. Without local networks and sufficient recognition, the three vacuum component firms were unable to 'hold down' the process of internationalization in a creative way and were reduced to a position of dependent assembly plants without an autonomous innovative potential.

The process of internationalization has not benefited all actors in the Rožnov region to the same extent and the polarization between well and poorly paid workers or between successful and unsuccessful firms certainly does exist in the region. Nevertheless the overall assessment of the situation gives more reasons for optimism than pessimism. Internationalization has not turned Rožnov into an imported Western enclave where the benefits are restricted to a core group of selected employees, as in the case studies by Smith and Ferenčíková (1998) or Smith and Pavlínek (1998). In Rožnov the future of the regional economy looks more promising because the form of internationalization associated with the local semiconductor firms is gaining an edge. In the Rožnov region's case, for the most part, the local actors control the meanings of imported practices, interpret them in a way which stimulates openness and inclusiveness in mutual relations and therefore increases the integration of the regional institutional set-up. As the situation stands now, there are many indicators that Motorola's commitment to the locality is a long term one and the prospects for future cooperation

are better than ever. The semiconductor industry in Rožnov is thus likely to grow and increase its dominance, perhaps even to the extent to which Tesla Rožnov once dominated the regional economy (interviews in Tesla Sezam and Terosil). The chances are therefore, that mediated form of internationalization will continue to be a source of new practices and meanings that will be reinterpreted locally and mixed selectively with local ones.

In the case of the vacuum components firms which face serious problems, even their complete collapse would hardly represent a major threat to the stability of the Rožnov's regional economy. The increasingly dominant semiconductor industry in Rožnov could compensate for such a loss and could possibly absorb the redundant workers. Perhaps if the inclusiveness exhibited by the managers of the semiconductor firms is maintained, they could eventually enrol and integrate the actors presently associated with the action frameworks of the vacuum component firms. Although their understanding of internationalization is quite different, this development does not seem that unlikely since the links between the two already exist in the form of good personal relations between the managers of Tesimpex and Tesla Sezam (interviews; Database of the Ministry of Justice). We can only speculate what innovations a closer integration between the two might bring.

The future of Rožnov region will most probably continue to be dominated by the semiconductor industry. Unlike the past, however, this specialization is likely to be more resistant to an institutional lock-in, as the management of both the semiconductor firms maintain a wide range of international, domestic and local networks. These contribute to continuous reflection and innovations within their own firms, as well as in other firms in the region. The process of internationalization in Rožnov has clearly played a central role in creating this institutional set-up which is responsive to change and looks likely to maintain its adaptability and competitiveness also in the future.

CONCLUSION

The research question and the theoretical work

The motivating question set up in the Introduction to this thesis was what makes some regions in post-Communist countries able to 'hold down' (Amin and Thrift, 1994b) the process of internationalization in a way that enhances their adaptability and competitiveness. The theoretical, as well as the empirical parts of this thesis, suggest that there is no simple answer to the question. It has been argued instead that to answer such a question we need to 'unpack' the notion of local culture, or local forms of embeddedness, responsible for the different ways in which internationalization is 'held down' in individual regions and localities. Moreover, this research has argued that the concept of internationalization needs to be scrutinized and problematized in order to provide a qualified response to the research question set up at the beginning. The answer to this question thus does not consist of a list of requirements or factors which 'explain' a successful and productive accommodation of internationalization within a region. An appropriate response to the original research question, then, requires first of all an elaboration of a framework within which the key concepts of internationalization and embeddedness may be analyzed.

It has been argued that internationalization does not represent a homogeneous force exerting the same influence on all regions, nor is it a unidirectional force which transforms local forms of embeddedness in a way 'pre-given' by the strategies of Western firms. Internationalization, as understood in this thesis, represents both a discursive and a material process which transforms the existing forms of embeddedness *and* is transformed by them. In other words, internationalization is a process which only gains its meaning through locally-specific interactions with existing forms of regional embeddedness and through the mediating activity of individual actors. This thesis has therefore argued for, as well as developed, an approach which explores the impact of internationalization based on an analysis of such interactions and mediation.

The concept of embeddedness as understood here represents a system of networked personal relations (Granovetter, 1985/1992), together with the relations of symbolic domination and power (Bourdieu, 1977, 1990) in which actors operate. The research has further shown that the notion of embeddedness can be broken down into more specific concepts of networked social capital, symbolic capital and power and that it can be explored in a dynamic and non-functional way by means of analyzing the cultural processes of translation and enrolment (Latour, 1987; Callon, 1991). All of these concepts can, in turn, be employed in constructing a framework for explaining the diverse effects of internationalization on regions and their differentiated ability to 'hold down' this process.

The analytical framework advocated in this thesis thus moves beyond the quantitative assessment of internationalization which focuses on indicators such as the amount of invested capital, number of jobs created through internationalization, or the number of local subcontracting linkages. These indicators are not unimportant yet they are not sufficient to gain a full picture of the overall consequences that internationalization has for regional economies. The concrete outcomes of internationalization, as argued here, are a product of the mutual constitution and reconstitution of both embeddedness and internationalization. The core of this thesis is therefore the development of an alternative framework capable of assessing the effects of internationalization on regional forms of embeddedness, including the character of the power relations within localities.

The response to the question - what allows some regions to 'hold down' internationalization in a way which increases their adaptability and competitiveness? - thus requires that we analyze the cultural processes through which internationalization is 'weaved into' the action frameworks of actors and into regional institutional set-ups. The development and elaboration of an analytical framework suitable for this task represents not only a basis for a response to the research question, but also the main contribution of the thesis to the existing literature about the uneven impact of internationalization on regional economies.

The main foci of the approach applied in this thesis are the locally-specific networks and cultural processes through which the process of internationalization is mediated and translated into concrete practices and meanings. The outcomes of internationalization in individual regions are perceived as a process which re-shapes existing forms of embeddedness, but their concrete effects are the product of specific combinations of practices and meanings of both Western and local actors. The mixing of the two is mediated by those actors who orchestrate recognition and who control the meaning of internationalization; that is, the local mediators (Callon, 1991) who enjoy the symbolic power which, in turn, allows them to orchestrate recognition within the locality.

The adopted analytical framework thus combines existing geographical research with the network analysis of NES (Granovetter, 1985/1992; Swedberg and Granovetter, 1992), work of Pierre Bourdieu (1977, 1990, 1991) and actor-network theory (Latour, 1987; Callon 1991). In so doing it brings dynamism to Bourdieu's theoretical work and modifies actor-network theory in a way which makes it suitable to a regional analysis and represents a rather unusual, culturally informed approach to the analysis of the uneven impact of internationalization. The approach outlined aimed to blur the artificial boundary between economic and cultural practices and, through the empirical work, helped to demonstrate that economic practices are also culturally constructed. Moreover, the empirical work hopefully has also demonstrated that such an approach is a valid one and represents a fruitful way for assessing regional adaptability.

However, the combination of the three theoretical strands within the analytical framework was not without its problems. These were gradually uncovered in the course of empirical work which helped to identify the overlaps between them, as well as highlighted the fact that each of these strands has a different strength and contributes to a specific aspect of empirical analysis. The strength of Bourdieu's approach lies mainly within its ability to explore and analyze the stability and reproduction of power relations and locally-specific forms of rationality which are largely beyond the control of individuals. On the other hand, ANT, and also NES, stress the need for analyzing the processes of change. NES stresses the networking activity of individuals, while ANT

adds an emphasis on the power aspects of network building. The preoccupation of ANT with processes of translation and enrolment, through which actors put intermediaries into use, stabilize meanings and create partly irreversible forms of rationality and power relations, thus move beyond the ambition of NES and partly overlap with Bourdieu's concern for stability of power relations.

In other words, although the empirical work demonstrated that symbolic power permits local mediators to stabilize the meanings of internationalization through the cultural processes of translation and enrolment (Latour, 1987; Callon, 1991), this approach still raises other issues about theory and method. What I see missing in my approach when reflecting back on the research process, is a more detailed analysis of the concrete material and non-material arrangements through which the new meanings are turned into locally-intelligible and collectively reproduced practices and 'technologies'. These technologies form part of networks as understood by ANT (Callon, 1991; Murdoch, 1995, 1997). Moreover, such technologies or intermediaries often do, at a later stage, become recognized symbols of power which secure the reproduction of established practices and power relations. They therefore represent an essential link between the two major theoretical strands, the ANT and Bourdieu's approach. Furthermore, it also became clear in the course of empirical work that the nature of processes, through which the intermediaries and technologies were stabilized, has often played a major role in the relative adaptability and competitiveness of enterprises and regions.

Should I be able to conduct a similar research project once again, I would therefore pay more attention to the notion of culture and especially the processes of cultural mediation, translation and enrolment. Namely, I would concentrate not only on the key networks through which actors' actions were carried out, but also on the managerial concepts and practices transmitted through them and modified by actors. Such a research project would analyze, for example, how internationalization translated locally into new management practices, marketing strategies, new ways of negotiating with suppliers, the concept of 'lean production' and how the stabilization of new

meanings influenced the power relations, as well as the process of adaptation within regions.

However, the change of focus towards the stabilization of intermediaries and the development of technologies that reinforce routines, practices and controlled behaviour would also increase the domination of ANT within my analytical framework. Such a change would also most probably lead to an adoption of a different research methodology. A detailed research into the processes of translation and enrolment at the level of individual enterprises would, then, require a longer term observation, more in-depth interviews, preferably repeated ones, and also other research techniques such as non-participatory observation or an analysis of the ways in which enterprises present themselves to outsiders or insiders.

In the hypothetical case of repeating the same research once again, the approach of NES would thus lose much of its importance as somewhat redundant compared with the analytical concepts of ANT. The approach of Pierre Bourdieu would still remain important, but the empirical analysis would put more emphasis on the cultural processes characteristic of ANT, instead of Bourdieu's concepts of social and symbolic capital.

Nevertheless, these critical reflection on the adopted analytical framework do not, I believe, undermine it. They suggest, instead, that research is an open-ended process of constant discovery and re-thinking which results from the interaction between theoretical and empirical work. Moreover, the findings presented in this thesis are sufficient to demonstrate that the differences in the character of processes of translation and enrolment can give different meanings to Western symbols. Their results can either empower or disempower local actors and can lead to an innovative process of adaptation, or to a simple acceptance of imported practices and dependence. Further elaboration on the character of translation and enrolment could, however, potentially establish more specific circumstances that are likely to lead to a success or failure in translating internationalization and 'holding it down'.

The way in which the analytical framework of the thesis has been developed implies that there are no easy answers as to why in some regions internationalization increases their adaptive capacity, while in others the same process increases their

dependence on foreign firms and decreases their ability to become self-regenerating growth poles. The complication of the response to the research question, however, does not mean that it is impossible to answer. As has been shown in the empirical chapters of the thesis, the analytical framework concerned with the character of cultural processes *can* provide some clues as to why internationalization in some regions led to a mere institutional 'cloning' of Western organizational forms (Grabher, 1994, 1997), while in others it allowed for a creative adaptation of existing institutional forms to Western capitalist rationality. The processes of translation and enrolment shape the actual impact of internationalization within regions, they transform the existing regional institutional set-ups and create diverse preconditions for the adaptability of regions. As such, the cultural processes of enrolment and translation represent the core of a culturally informed explanation of the diverse outcomes of internationalization and a key to a more nuanced response to the original research question.

Apart from developing a framework for analyzing the regional impact of internationalization, the thesis has also presented some normative claims. These are related to the character of cultural processes through which internationalization can be accommodated locally in a way which makes localities adaptable and innovative. Such claims have been further substantiated by the empirical case studies presented in this thesis and they represent a more specific 'answer' to the question: what can 'hold down' the process of internationalization locally? This 'answer', however, does not represent a claim to any universal, generalized truth which would imply that internationalization can reinvigorate any regional economy. The concrete results of internationalization will always be, at least partly, dependent on entities which are beyond the control of network-builders and which can subvert the translating and enrolling efforts of actors (Murdoch, 1997). Nevertheless, the empirical case studies suggest possible lessons about the kind of cultural processes and mediation that are likely to increase the positive effects of internationalization on regional adaptability.

The research question and empirical evidence

The findings of the three empirical case studies clearly show that internationalization can play an important role in stimulating regional economies and turning them into adaptable and self-sustaining growth poles with a locally-based innovative potential. The positive impact of internationalization, however, is conditional. Each of the empirical chapters, in turn, suggests something about the circumstances that may increase the ability of regions to 'hold down' the process of internationalization in a productive way.

Chapter Six, which analyzed the experience of the Lanškroun region, shows that the reinvigoration experienced by this regional economy as a consequence of internationalization is related to the ability of local actors - the managers of AVX - to mediate the meaning of internationalization in a manner which enrolls other local actors. In this way, the process of internationalization not only enriches the local institutional set-up by the incorporation of new, international meanings and practices, but it also allows for a greater number of diverse interpretations and responses. In the case of Lanškroun, this diversity of interpretation has nonetheless not prevented local actors from communicating with each other and building on the interpretations of others. The meaning of internationalization has been controlled by local actors and used by them as the basis for a collective reinterpretation which, in many cases, strengthened the networks among local actors themselves. At the same time, the process of internationalization also adjusted these networks to a new profit-oriented rationality, enriched the local action framework by new international networks and widened the spectrum of interpretative possibilities available to actors. The local control over the meaning of internationalization, combined with the way in which the diverse interpretations of internationalization have been coordinated and 'held down' in the local institutional set-up, increased the ability of a number of local actors and firms to accommodate a greater variety of alternative meanings. It became an essential part of local ability to learn to adapt, as well as a source of localized innovation which makes the regional economy increasingly independent of foreign partners.

Chapter Seven demonstrated through the case study of the Mladá Boleslav automotive region that the mediation of internationalization alone does not guarantee

the greater adaptability of the region. This chapter has shown that an inflow of international meanings and practices and their accommodation might be restricted to a limited number of local actors. Such a form of mediated internationalization does not result in the enrolment and collective reinterpretation of other local actors. The outcome, therefore, isolates the action frameworks of a small group of local managers from the majority of local actors. The meaning of internationalization is mediated and controlled locally, yet it remains under the control of a local elite. The process of internationalization thus did not lead to a collective reinterpretation, nor did it produce shared meanings that would enable actors to identify with the process of internationalization. Internationalization in this example made the local automotive industry capable of immediate adaptation. The lack of enrolment and alignment of interests among local actors, however, prevented the region from using the inflow of international practices for creating autonomous, locally-based innovations and resulted instead in an institutional set-up that does not improve the chances for long term regional adaptability.

In a similar vein to Grabher (1994, 1997), Chapter Seven demonstrated that the form of internationalization, characterized by an uncritical import or 'cloning' of Western institutional and organizational principles (which have also been identified among some firms in region of Mladá Boleslav), is even more damaging to the long term adaptability of regions. The process of internationalization in such cases is not mediated and adjusted to local conditions and its potential for creating new interpretative possibilities is wasted. Even worse, the meaning of internationalization is not under the control of local actors. This kind of internationalization, then, makes regions vulnerable to decisions made elsewhere and puts their adaptability and competitiveness at risk.

Finally, Chapter Eight argued that the impact of internationalization in Rožnov has been predominantly beneficial for reasons similar to those of Lanškroun. In Rožnov the picture is more complex than in Lanškroun because of the distinct internationalization paths followed by different local firms, some of which have completely failed to adapt. This case study nonetheless confirms the conclusions drawn

from the previous empirical chapters. In Rožnov the managers of Tesla Sezam and Terosil successfully positioned themselves as the local mediators of internationalization and simultaneously preserved their rich heritage of local networks. Moreover, they did not merely content themselves with a successful adaptation of their own firms to internationalization but used their networks and symbolic power to enrol a number of local actors in their interpretation of internationalization. Local actors were thus allowed to take part in the adaptation too. They felt they also had a stake in the changes and willingly contributed their skills and abilities, as well as adjusted their action frameworks to the demands of internationalization. Each of these actors interpreted the meaning of internationalization in a slightly different way and so these adjustments produced a diversity of responses. More to the point, the sense of common enterprise produced through enrolment did not prevent local actors from exchanging their experiences both among themselves and with their foreign partners in Motorola. The combination of local practices with international ones, facilitated by local mediation and translation, increased the local institutional and cultural diversity in a constructive way. It made internationalization the basis on which actors collectively redefined their understandings in a way which increased their innovativeness, while it allowed the key local firms to diversify their networks and to avoid dependence on their foreign partners.

The conclusions drawn from the experience of these three regions thus confirm what was suggested in the theoretical part of the thesis. Firstly, they confirm Grabher's argument that a form of internationalization which suppresses existing forms of regional embeddedness and replaces them by imported Western institutional forms is likely to decrease adaptability and reduce the innovative potential of regions (Grabher, 1994, 1997; Grabher and Stark, 1997b). In order to use the potential of internationalization in a creative way, the process needs to be *mediated* locally by actors who enjoy local recognition. Such mediation, which is likely to increase the positive effects of internationalization, is achieved through a successful process of translation that involves the mutual adjustment of practices between local and foreign actors. The success of such a translation depends, in turn, on the ability of the mediators to align the interests and understandings of diverse actors, to create an atmosphere of trust which is

conducive to negotiation and learning from mutual differences (Sabel, 1993). Moreover, this kind of a locally-mediated form of internationalization empowers local actors, identifies them with the changes and motivates them to adapt. It also enriches the action frameworks of all actors involved in the adaptation by allowing them to draw on each other's interpretations and practices. The empirical findings further confirmed that a gradual and mediated form of adapting to internationalization is more likely to produce innovative interpretations and forms of action (Stark, 1992, 1995, 1996; Sabel, 1993, 1994; Grabher and Stark, 1997b).

Secondly, the contrast between the experience of Mladá Boleslav region and that of Lanškroun shows that the mutual adjustment is an essential, but not a sufficient precondition for a creative form of adaptation to and 'holding down' of internationalization. Another important aspect of a successful 'holding down' is the ability of local mediators to *enrol* other actors in adapting and constituting the meanings of international practices. The enrolment of diverse local actors implies that others can contest the meaning of new practices without threatening the integration and cohesion of the local institutional set-up. Every extra actor enrolled in the adaptation process increases the chances that the new practices will be interpreted in a different way. The diverse interpretations are then integrated and aligned with those of others and become a part of the collective process of reinterpretation. The inclusiveness and openness in the process of translation and enrolment not only facilitate interaction among local actors, but also increase the diversity of responses in the locality which may in turn trigger off a sustained production of new interpretative possibilities (Sabel, 1994). From the point of view of adaptability of the whole regional institutional set-up, this inclusiveness and ability to remain open to alternative interpretations is equally important as the ability to align the differences between local and foreign actors. Such an inclusive accommodation of internationalization can stimulate locally-based innovations and strengthen the region's ability to 'learn to adapt' (Amin, 1998).

Answering the research question

To return to the original research question - what 'holds down' the process of internationalization? - the theoretical and empirical findings of this research can be summarized in two main points. First, the process of mediating the meanings of internationalization locally is likely to align the interests and the positions of local and foreign actors, and therefore increase the chance that regional economies adapt to internationalization in ways which strengthen their innovativeness. And second, the enrolment of a greater diversity of actors, together with an inclusiveness and openness in accommodating the meanings of internationalization, increases the chances of sustaining locally-based innovativeness and regional adaptability in the long run.

These conclusions, however, should be treated with circumspection and should not lead to over-generalized 'prescriptions' for successful ways of internationalizing regional economies. This is because the empirical findings of this thesis also confirmed that the diverse outcomes of internationalization reflect the locally-specific forms of embeddedness which were inherited in the form of institutional legacies from the Communist past. All the inherited networks, their properties as well as practices and meanings recognized by actors, play a major role in 'holding down' internationalization in locally-specific ways. These legacies have developed over long periods of time and their character varies largely from one region to another. The unevenness of these institutional legacies is more than likely to result in uneven regional development in the future (Swain and Hardy, 1998) and certainly not all regions will prove capable of mediating the process of internationalization in productive ways. This is not a reason for undue fatalism however, but a simple acknowledgement of the fact that some regions do not possess the collective assets and institutional legacies that are easily adjusted to Western capitalist rationality, or that are attractive for Western partners (Swain and Hardy, 1998; Van Zon, 1998).

On the other hand, all regions possess some form of collective assets. The ability to recognize their potential and use them in innovative ways which are perhaps not obvious, but which might turn them into a source of competitiveness (Amin, 1998), is largely a matter of the abilities of local mediators. In this respect, the empirical findings of this thesis give reason for a cautious optimism. A further important finding of this

research is that the institutional legacies of Communism are, in principle, compatible with the Western capitalist rationality of profit making, greater accountability, cost-efficiency and quality. All three case study regions were able to adapt to this form of rationality, albeit with different degrees of success. Moreover, the findings also demonstrate that under specific circumstances the process of internationalization can reinvigorate regional economies in post-Communist countries and can even exploit and strengthen the locally-based development potential.

The existence of regional economies such as Lanškroun (Chapter Six) or Rožnov (Chapter Eight) confirm the suggestion put forward by David Stark (1992, 1995, 1996; Grabher and Stark, 1997b) that the recombinant forms of capitalism produced by a gradual adjustment of post-Communist legacies have the potential to create innovative institutional arrangements. It seems that the slow, evolutionary change experienced by these two regions was one of the preconditions of their successful internationalization. It gave local actors enough time as well as motivation to adjust themselves to the demands of capitalist rationality, while it also gave them the self-confidence to use selectively parts of existing institutional legacies. Local actors were thus able to combine their diverse local and domestic networks and practices with international ones. Furthermore, the local actors themselves could control the meaning of internationalization, be empowered by the process of internationalization itself, and therefore avoid a complete dependence on their foreign partners. Under such circumstances it seems, that regions in the post-Communist countries can successfully 'hold down' the process of internationalization and selected parts of their inherited institutional legacies can even become new sources of competitiveness. This specific form of internationalization which allows for the development of new institutional forms by combining old and new practices smoothes the process of adaptation and is likely to lead to a more 'organic', stable and adaptable institutional arrangements (Hodgson, 1988; Stark, 1992, 1995, 1995; Amin and Hausner, 1997; Grabher and Stark, 1997b; Mlčoch, 1997). The findings of Chapters Six and Eight then demonstrate that at least in some post-Communist regions this process may result in regional set-ups which are able to compete successfully with the adaptable and innovative regions of the West.

The challenge for researchers, as well as for the policy-makers of the post-Communist countries, is to find ways of exploiting the potential of regionally-specific institutional legacies by combining them selectively with elements of Western practices and meanings. This selective mixing-up and combining cannot bring equally satisfactory results in all regions as the outcome of this process is partly dependent on the character of existing forms of embeddedness and on their evolutionary trajectory.

The contribution of this thesis to such a challenge is the specification of circumstances and forms of action which increase the chances that internationalization will exploit the creative potential of existing forms of embeddedness in regions where such potential exists. There is obviously no simple answer to this challenging and highly political issue. However, the empirical findings presented here suggest two crucial preconditions for a successful combination of existing, old and the new, international practices and meanings. The first of these is the creation of conditions which enable actors to negotiate and mutually adapt to each other in a way which empowers local actors and allows them to become the mediators of internationalization; that is, those who control its meaning. The second is the ability of local mediators to make as many local actors involved as possible, to empower them by giving them a stake in the adaptation and making them part of a collective reinterpretation of reality. Although not all regions have an equally strong development potential, they all can mobilize and exploit whatever potential exists. The success of regions in mobilizing locally-based capacities and competencies generally depends on these two aspects of a local institutional arrangement: the ability of local actors to become recognized mediators with the power to translate, enrol and align diverse interests, and on their ability to make others accept a particular translated interpretation of facts, to share power with others and to strengthen a common feeling that others also have a stake in the process of adaptation.

The reinvigoration of regional economies through a successful adaptation of new impulses also has relevance for wider and more general issues of regional development. This research has shown that the analytical framework based on the concepts of social and symbolic capital and the cultural process of translation and enrolment, is a fruitful

way for explaining a region's ability to 'hold down' the process of internationalization. It is sufficient, I believe, to demonstrate that the specific character of cultural processes and power relations within regions are at the centre of any successful exploitation of regional development potential. The understanding of these processes and relations should therefore be a focus of future attempts at explaining and assessing the different ability of regional institutional set-ups to accommodate a variety of practices and interpretations and, more generally, to respond to change.

Such research, however, opens another substantial research avenue for the future: It opens the complex issue of the relationship between the competitiveness or adaptability of regions and the form of local democracy. Will a local democracy which is capable of empowering and involving diverse local actors in an inclusive and innovative way also contribute to the future adaptability of regions? In this sense, the research presented in this thesis is just the beginning of a debate over a much larger issue facing the post-Communist countries, as well as countries with long established democratic traditions.

APPENDIX

Interviews

The major part of the empirical work took a form of semi-structured interactive interviews. In the initial part of the research these were conducted with state officials at the Czech Ministry of Industry and Trade (MIT) and in Czechinvest, a state agency for promotion of foreign investment (May and June 1996). At the second stage, additional interviews were conducted at the MIT and at the same time pilot interviews were conducted with managers of three automotive companies and three electronics companies in different parts of the Czech Republic (October and November 1996).

In the final stage, the top managers of the selected companies in the three case study regions were contacted. First, by a letter specifying the aims of the project and outlining the structure of the interview and second, by telephone call to specify suitable date and time for an interview. This stage of field work was carried out between April and June 1997.

With the exception of the initial interviews with state officials, the interviews were taped. The two exceptions were when interviewees refused to be recorded for the fear that their recorded answers could be misused. The semi-structured character enabled the interviews to adjust flexibly to the attitudes of interviewees and make them more interactive whenever the interviewees showed a willingness and interest to spend more time elaborating on individual issues. As a consequence, the length of interviews also varied between 40 minutes to up to two hours.

The interviews with state officials were largely informative and helped to focus the empirical research by providing essential information about the major involvement of foreign firms in the Czech electronics and automotive industry as well as potential sources of further information. The pilot interviews and the final interviews then followed a similar structure which was, however, adjusted and fine-tuned between the pilot and the main project. The structure of interviews was also adjusted between the pilot and the main group of interviews in order to allow for a modified interview

structure and specific questions related to the newly established foreign-owned companies in the sample which were not part of the privatization process.

Interview structure of the main case study interviews:

1. History of the company
 - main supplier and customer networks
 - networks and links within the locality in the past (with local government, other firms)
 - attitude of interviewees to the Communist past
2. Process of privatization
 - history of privatization
 - identification of the main actors
3. Extent of networks restructuring
 - role of new owners/managers in shaping the network heritage, in changing the financial position of the company, in transforming the practices
 - changes in the structure of customers, degree of internationalization
 - motivation for changing the structure of networks and for internationalization
4. Characteristics of the new networks
 - stability of the new networks, form of communication with foreign partners
 - attitude towards trust and understanding of the market relations
 - three model situations (involving different business tricks) aimed to find out about a) the character of relations with the firm's main Western customers/partners; b) about the established business practice; c) about the personal standpoint of interviewees in relation to what they understood to be 'normal' business practice
5. Information about the company and personal information about the interviewee
 - importance of R&D
 - number of employees and the position of the company in the regional economy
 - character of relationship with other local bodies and firms at present
 - personal history of the interviewee aimed to find out about the self-definition of the interviewees, about their personal ties and attitudes towards local community and other actors in the locality

The interview structure in the case of newly established, foreign-owned firms was adjusted in a way which suppressed the part on privatization and added more emphasis on the motivation for the foreign investment itself. For a greater part, however, the interviews remained identical.

Interviews were held in the following firms and institutions:

A) The initial stage

Czechinvest - one interview (head of Regions Department)

Ministry of Industry and Trade - two interviews at the Department of Special Project, Section of Automotive Projects (head of the Department and two its employees) and one

at the Department of Metallurgy, Engineering and Electro-engineering Industry
(employee of the Department in charge of electronics industry)

B) The pilot stage

Ministry of Industry and Trade - one interview in the Department of Special Project,
Section of Automotive Projects and one at the Department of Metallurgy, Engineering
and Electro-engineering Industry

Automotive firms:

Magneton (strategy manager, 5.11. 1996)

Autometal (general director, 6.11. 1996)

SAP (*) (marketing manager, 11.11. 1996)

Electronics firms:

Tesla Strašnice (MIT employee in charge of the liquidation, 23.10. 1996)

Delong Instruments (owner and manager, 1.11. 1996)

Tesla Karlín (deputy general manager, 8.11. 1996)

C) The main group of interviews in each of the case study regions

Lanškroun:

AVX (interview A: customer service manager, 11.6. 1997), 100 % foreign ownership,
greenfield investment

Tesla Lanškroun (financial manager, 11.6. 1997), Czech ownership, voucher privatized
Metalstroj (*) (manager 17.6. 1997), majority Czech ownership, privatized by direct
sale

Strojstav (*) (owner and manager, 19.6. 1997), Czech ownership, newly established

AVX (interview B: plant manager, 23.6. 1997), 100 % foreign ownership, greenfield
investment

Mladá Boleslav:

General Plastics (*) (sales manager, 25.4. 1997), majority foreign ownership, direct sale
to foreign partner

Airdoors (*) (interview A: general manager, 13.5. 1997), majority foreign ownership,
direct sale to foreign partner

Airdoors (*), majority foreign ownership (interview B: sales manager, 13.5. 1997),
majority foreign ownership, direct sale to foreign partner

Autobrakes (*) (sales manager, 14.5. 1997), majority foreign ownership, joint-venture
with existing Czech manufacturer

ASO (*) (general manager, 14.5. 1997), Czech ownership, voucher-privatized, stakes in
several joint-ventures with foreign partners

Škoda-VW, (PR department employee, 20.5. 1997), majority foreign ownership, direct
sale to foreign partner

Monto (*) (financial manager, 21.5. 1997), 100 % foreign ownership, direct sale to
foreign partner

Supercable (*) (plant manager, 28.5. 1997), 100 % foreign ownership, direct sale to
foreign partner

KOB Electric (*) (general manager, 29.5. 1997), 100 % foreign ownership, greenfield
investment

T-Plast (*) (interview A: former general manager, 5.6. 1997), 100 % foreign ownership, partly a foreign takeover and partly a greenfield investment
T-Plast (*) (interview B: development manager, 5.6. 1997), 100 % foreign ownership, partly a foreign takeover and partly a greenfield investment
UCJ (*) (general manager, 10.6. 1997), 100 % foreign ownership, greenfield investment
Metalpress (*) (sales and financial manager and joint owner, 13.6. 1997), majority foreign ownership, joint-venture

Rožnov pod Radhoštěm:

Terosil (interview A: present general manager, 5.5. 1997), originally voucher privatized, presently majority foreign ownership
Radion (*) (owner and manager, 6.5. 1997), Czech ownership, direct sale
Tesla Sezam (general manager 6.5. 1997), originally voucher privatized, presently majority foreign ownership
TPT (*) (general manager, 7.5. 1997), Czech ownership, newly established
TVC (liquidator, 7.5. 1997), Czech ownership, voucher privatized
Terosil (interview B: former general manager, 23.5. 1997), originally voucher privatized, presently majority foreign ownership
TTV (*) (sales manager, 26.5. 1997), majority foreign ownership, foreign takeover
Tesimpex (*) (member of the board of directors, 19.6. 1997), Czech ownership, newly established

(*) company name changed for reasons of confidentiality

Number of refusals:

In four cases the management of the companies refused to be interviewed. Three of these occurred in the Mladá Boleslav region where two potential interviewees refused for reasons of company confidentiality. One interviewee in the same region refused due to time constraints and also lack of suitable alternative interviewee in his company. One refusal for the same reasons occurred in the region of Rožnov.

Secondary materials

The interview material was also supplemented by a substantial amount of secondary materials from various sources which also played an important role in selecting the companies which entered into the case study sample. The role of secondary materials was twofold. Firstly, to identify the companies that suited the selection criteria of the research (i.e. the degree of internationalization and links with AVX, Škoda-VW and Tesla Rožnov in each of the respective regions). Secondly, for gathering the maximum possible relevant information that helped to focus the interviews and provide a source of information for cross-reference with the interview material.

The major source of secondary information about the case study companies were newspaper and journal articles published in the Czech Republic over the past eight years

(since 1990) which were extracted from a CD-ROM press database published by Albertina.⁵⁷ Other important sources of secondary information were different firm catalogues: Hoppenstedt Bonnier (1996, 1997) a catalogue of major companies in the Czech Republic which provided lists of members of corporate boards and their changes over time as well as basic economic indicators of most of the interviewed enterprises; Catalogue of the Czech and Moravian Electrical and Electronic Association (in English); Adresář Sdružení automobilového průmyslu (Address book of the Association of Automotive Industry) (December 1995 edition); Ročenka 1996 Sdružení automobilového průmyslu (Yearbook 1996 of the Association of Automotive Industry). All of these provided additional information about production programme of individual enterprises, their history, and also essential contact addresses. Furthermore, some extra secondary information was gathered from special address books, internal materials or through personal communication with interviewees in Czechinvest and in MIT.

Finally, some secondary empirical information was only gathered during the interviews (company annual reports, brochures and presentation materials) or after the actual field work was finished. An indispensable source of such information was the business register of the Czech Ministry of Justice (<http://www.justice.cz/>) which, unfortunately, was made available on the internet only when my field work was finished. Nevertheless this source provided some crucial supplementary information about the personal links between individual interviewees in the case study region and about interlocking directorates and cross-ownership in some of the companies included in the case studies.

Selection of enterprises

The secondary sources mentioned above helped to direct the actual selection of enterprises to be included in the sample. Given the specific criteria for selection in individual regions some additional sources were also used for the identification of suitable candidates for interviews.

⁵⁷I wish to express my thanks to my friends Tomáš Drtina and Radek Mužík in Incoma Praha who allowed me to use this database.

In the case of Lanškroun, the original focus on AVX and Tesla Lanškroun was later broadened to include some additional interviews with other local companies that reflect the local spin-off effects of the AVX investment. Time constraints combined with a relatively late recognition of the importance of these local networks for the actual impact of internationalization resulted in a relatively small number of interviews in this region. However, this defect was sufficiently compensated by the quality and information-richness of these interviews. All the interviewees in this case study appeared to be central to local networks, had close, personal relations with other local SMEs and also provided a cross-check of the information.

In the case of the subcontractors of Škoda-VW, the main selection criteria were the subcontracting links with this company, that is, companies affected by the 'secondary internationalization'. For this purpose some of the above mentioned secondary empirical material together with different lists of Škoda's subcontractors proved crucial. Despite all the effort however, I was not able to get hold of an up-to-date and complete list of suppliers because Škoda regards such information as a company secret. I was, nevertheless, able to reconstruct and compile a reasonably accurate list of subcontractors from older lists, from newspaper information and partly also from the information gathered during the field work itself. The secondary materials also played an important role in directing the selection so that both the 'old', pre-1989 suppliers of Škoda and the new ones, established recently through greenfield foreign investments were included. Moreover, the inclusion of both Czech-owned and foreign-owned suppliers of Škoda was also made possible largely due to the extensive search of secondary materials.

Finally, in the case of Rožnov, the selection of companies was based on the links of existing firms with the now liquidated Tesla Rožnov. These firms were selected in order to fit into one of the two major electronics specialities of Tesla Rožnov: the production of either vacuum components or semiconductors. Apart from the common secondary sources, an important role in the process of selection was the findings of an earlier research project carried out in this area by the Department of Geography, Masaryk University in Brno (Okres Vsetín, 1994). This report provided background

information on the break up of Tesla Rožnov, on the situation in its individual 'successors' and on the degree of their internationalization.

Selection of interviewees

All the interviewees were people who either worked at the selected companies as managers at the time of the field research or who until recently had occupied these positions. The letters sent to the interviewees specified the structure of interview and the issues that were to be discussed. In cases when the addressees (i.e. the top managers) were themselves unable to answer these questions - usually because they joined the company only recently - they were asked to suggest an alternative interviewee with the relevant knowledge. In several cases two interviews were also carried out within one enterprise. One with the former and another with a present member of the top management. In other cases my personal contacts (either from Czechinvest or contacts of friends and colleagues) or recommendations of some of the interviewees helped to identify additional suitable interviewees whose opinions acted as an important form of cross-check for the validity of the empirical material.

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